PROBLEMS OF THE U.S. STEEL INDUSTRY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

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PROBLEMS OF THE U.S. STEEL INDUSTRY

THURSDAY, APRIL 26, 1984

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met at 9:10 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press releases announcing the hearings follow:]

[Press release No. 27, Wednesday, Feb. 8, 1984]

HON. SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES INTENTION TO SCHEDULE A PUBLIC HEARING ON PROBLEMS OF THE U.S. STEEL INDUSTRY

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee on Trade intends to schedule a public hearing during this session of Congress to review current conditions in the U.S. steel industry. Scheduling of the Subcommittee hearing will be announced at a later time.

The hearing will address the overall situation facing the industry, particularly with regard to trade, as well as any pertinent legislation pending before the Subcommittee. A number of issues will be explored, including competitive conditions of the domestic steel industry, unfair trading practices of foreign competitors, and proposals to limit imports and their implications for U.S. trade policy. In light of the numerous policy questions involved, the hearing is expected to be comprehensive in scope.

The problems facing the U.S. steel industry are currently being addressed on various fronts. Several legislative proposals have been introduced in the 98th Congress which deal with the steel industry, including bills to impose quotas on imports. Pending before the Department of Commerce and the International Trade Commission are cases alleging dumping and subsidization of steel imports from a number of countries, particularly the developing nations. Bethlehem Steel Corporation and the United Steelworkers rcently joined in a petition filed with the International Trade Commission for import relief under section 201 of the Trade Act of 1974.

In view of the importance and complexity of this issue, the Subcommittee is beginning its preparations for full deliberations and is requesting comprehensive reports from several sources. In particular, the Congressional Budget Office has been requested to assess the microeconomic and macroeconomic effects of global steel quotas, as proposed in H.R. 4352. Its analysis will include effects on demostic steel production, prices, employment, costs of production, productivity growth, reinvestment, and profits. Reports from other sources will be requested as the Subcommittee moves forward with its deliberations.

Details concerning the Subcommittee hearing will be announced as soon as it is scheduled. In the meantime, anyone interested in duscussing this subject should contract the Subcommittee staff at (202) 225-3943.

[Press release No. 31, Wednesday, Mar. 28, 1984]

HON. SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES DATE FOR HEARING ON PROBLEMS OF THE U.S. STEEL INDUSTRY

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will begin hearings on trade issues relating to steel and on current conditions of the U.S. steel industry on Thursday, April 26, 1984. As described previously in press release #27, the hearing will consider legislation pending before the Subcommittee specifically pertaining to steel, including H.R. 5081 to impose steel import quotas. The hearing will also examine the current state of the domestic industry, including levels of production, employment, capacity, profitability, and other factors affecting international competitiveness, as well as problems posed by unfairly traded imports.

The hearing will begin at 9:30 a.m. in room 1100 Longworth House Office Building. Testimony will be received by invitation only at this time. Additional days of hearings will be scheduled as the Subcommittee schedule permits, and will be announced at a later date.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Requests to be heard must be made by telephone to Harriett Lawler [telephone (202)225-3627] by close of business, Friday, April 13, 1984. The request should be followed by a formal written request addressed to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance will be encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

It is urged that persons and organizations having a common position make every effort to designate one spokesman to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentations will be strictly limited with the understanding that a more detailed statement may be included in the printed record of the hearing. This process will afford more time for Members to question witnesses. In addition, witnesses may be grouped as panelists with strict time limitations for each panelist.

In order to assure the most productive use of the limited amount of available for questions, witnesses appearing before the Subcommittee are required to submit 200 copies of their prepared statements to the full Committee office, room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearances.

Requests to be heard must contain the following information:

1. The name, full address, and capacity in which the witness will appear, as well as a telephone number where he or his designated representative may be reached;
2. A list of any clients or persons, or any organization for whom the witnesses appears; and
3. A topical outline or summary of the comments and recommendations in the full statement.

The above information should also be incorporated in the prepared statements to be presented in person as well as those filed for the printed record of the hearing.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Persons submitting a written statement in lieu of a personal appearance should submit at least six (6) copies of their statement, by the close of business Thursday, May 31, 1984, to John J. Salmon, Chief Counsel, Committees on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may provide 100 additional copies for this purpose to the Committee Office before the hearing begins.

[Press release No. 36, Monday, Apr. 23, 1984]

HON. SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES SCHEDULE FOR HEARINGS ON PROBLEMS OF THE U.S. STEEL INDUSTRY

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced the schedule for the first phase of hearings on problems of the U.S. steel industry previously announced in Subcommittee press releases No. 27 and No. 31. The first phase of the hearings will be held on April 26 and May 2, 1984, in the main Committee hearing room, 1100 Longworth House Office Building. The hearing on April 26 will begin at 9:00 a.m., rather than 9:30 a.m. as previously announced in press release No. 31. The hearing on May 2 will begin at 9:30 a.m. Additional days of hearings will be scheduled as soon as the Subcommittee's calendar permits, and will be announced at a later date. The schedule for April 26 and May 2 will be as follows:

April 26, 1984

9 a.m. Congressional Steel Caucus of the U.S. House of Representatives: The Honorable John P. Murtha, M.C., Pa.; The Honorable Joseph M. Gaydos, M.C., Pa.; The Honorable Elwood Hillis, M.C., Ind.; and The Honorable Ralph Regula, M.C., Ohio

American Iron and Steel Institute (AISI): David M. Roderick, Chairman, AISI, and Chairman, U.S. Steel Corporation; Donald H. Trautlein, Chairman and CEO, Bethlehem Steel Corporation; James E. Chenault, Jr., President and CEO, Lone Star Steel Company; Roger R. Regelbrugge, President, Georgetown Industries, Inc.; Dr. Adolph J. Lena, Chairman, Al Tech Specialty Steel Corporation

United Steelworkers of America, AFL-CIO: Mr. Lynn R. Williams, President

May 2, 1984

9:30 a.m. The Honorable William E. Brock, U.S. Trade Representative; the Honorable J. Paul McGrath, Assistant Attorney General, Antitrust Division, U.S. Department of Justice (tentative).

2 p.m. The Honorable Malcolm Baldrige, Secretary of Commerce.

[Press release No. 38, Thursday, May 3, 1984]

HON. SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES SCHEDULE FOR CONTINUED HEARINGS ON PROBLEMS OF THE U.S. STEEL INDUSTRY

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced the schedule for continuation of hearings on problems of the U.S. steel industry previously announced in Subcommittee press releases No. 27, No. 31, and No. 36. The next day of hearings will be held on Tuesday, May 8, 1984, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 11:30 a.m. Witnesses and other interested persons should be advised, however, that all or part of this hearing will be subject to postponement if House and Senate conferees are required to meet on H.R. 4170, The Tax Reform Act of 1984. Additional days of hearings will be scheduled as the Subcommittee's calendar permits, and will be announced at a later date. The schedule for May 8 will be as follows:

11:30 a.m.:

Panel: Gilmore Steel Corporation: Thomas B. Boklund, president; Pacific Steel Corporation: Howard L. Wilkinson, vice president; Ohio River Steel Corporation: Wolfgang L. Jansen, chairman of the board.

Panel: American Wire Producers Association: Leo F. Buckley, managing director, National-Standard Export Corporation; West Coast Ad Hoc Wire Producers Committee: Ed McNew, vice president, Davis Walker, Inc.; Maryland Specialty Wire Company: Richard Nash, president.

West Coast Fabricators and Steel Industry Association: Joseph L. Lang, government affairs representative.

[Press release No. 42, Tuesday, June 12, 1984]

Hon. Sam M. Gibbons (D., Fla.), Chairman, Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Announces Date for Continued Hearings on Problems of the U.S. Steel Industry

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced the date for continuation of hearings on problems of the U.S. steel industry previously announced in Subcommittee press releases #27, #31, #36, and #38. The next day of hearings will be held on Wednesday, June 20, 1984, in room B-318 Rayburn House Office Building, beginning at 10:00 a.m. Oral testimony will be received by invitation only, and a list of invited witnesses will be available in the Subcommittee office, Room 1111 Longworth House Office Building, on Thursday, June 14. Witnesses and other interested persons should be advised, however, that all or part of this hearing will be subject to postponement depending on the conference schedule for H.R. 4170, The Tax Reform Act of 1984. Additional days of hearings will be scheduled as the Subcommittee's calendar permits, and will be announced at a later date. The hearing record will remain open for submission of written statements until the conclusion of the series of hearings.

[Press release No. 45, Friday, July 20, 1984]

Hon. Sam M. Gibbons (D., Fla.), Chairman, Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Announces Date for Completion of Hearings on Problems of the U.S. Steel Industry

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of [illegible] Committee on Ways and Means, U.S. House of Representatives, today announced the schedule for completion of hearings on problems of the U.S. steel industry previously announced in Subcommittee press releases No. 27, No. 31, No. 36, No. 38, and No. 42. The final day in this series of hearings will be Friday, August 3, 1984. The hearing will begin at 9:30 a.m. in room B-318, Rayburn House Office Building.

Oral testimony will be received by invitation only, and a list of invited witnesses will be available in the Subcommittee office, room 1111 Longworth House Office Building, on Thursday, August 2. Since this will be the final day of hearings on this subject all interested parties who have not been invited to testify are welcome to submit written statements for the record. The record will be open for submission of statements until close of business, August 10, 1984.

Chairman Gibbons. Good morning, ladies and gentlemen.

I wonder if we could all take our seats.

I think most of those in the room know that this is a meeting of the Trade Subcommittee of the Ways and Means Committee. We are having a hearing this morning that is directed toward the domestic steel industry.

These hearings are being called to help us gain a better appreciation of the problems facing this troubled sector of our economy and the international environment for world steel trade.

We will receive testimony from numerous witnesses who will demonstrate I believe, the depth and diversity of the steel sector of our economy. We have asked the witnesses to focus on the broad spectrum of the issues confronting the steel industry today, competitiveness, technology, development of labor relations, tax and regulatory policies, and of course trade policy.

I am well aware that there is a call from elements of the industry for import quota legislation and we hope that all witnesses will address this issue but that is not the sole purpose of this hearing. We need a full disclosure of all the problems and challenges facing this sector of our economy so that we can make an informed judgment about steel trade policy.

The world steel industry is changing rapidly. Demands for steel products are changing. Technology is exploding. The demand to compete on a global scale is greater than ever. These hearings will hopefully help shed some light on how we can best structure ourselves to compete with this world challenge.

We expect these hearings to cover several days. In addition to today's distinguished witnesses we have scheduled one day next week, May 2d, when we will hear from Ambassador Brock and Secretary Baldrige and Assistant Attorney General Paul McGrath.

We will announce future days of hearings as soon as possible. I should note that we have received a large number of requests to testify and that we will do our best to accommodate as many as possible.

Many of the members of this subcommittee of course will be conferees on the tax bill that is now before the House and the Senate and that also will interrupt some of these hearings, unfortunately.

I would next like to recognize our distinguished member of this Trade Subcommittee, Mr. Pease. Mr. Pease, as we all know is from Lorain, OH. He has taken a deep interest in steel problems and in the steel industry ever since he has been in Congress and perhaps long before that. But I know of his effective work on this committee, and of his thoughtful approach to the problems that we face.

Mr. Pease.

Mr. PEASE. Thank you very much, Mr. Chairman. I am looking forward to hearing the testimony of my fellow members of the Steel Caucus so I will try to be brief.

I am very pleased that you have scheduled a series of hearings on the problems of the U.S. steel industry and I would like to take just a moment to relate the health of this vital industry to the needs of my district.

In the past, United States Steel's Lorain Works has been the major employer in my district. During the late 1970's the plant employed nearly 8,000 people. At this time only about 3,400 workers are on the job. As our domestic industry struggles to make a long-term adjustment, to stagnation in the demand for steel, to excess capacity, to profitability below the manufacturing average, and to loss of market share, virtually no one expects the level of employment in the steel industry in my district to return to its historical high. Some of those jobs are gone forever.

From my point of view, I am dedicated to the modernization of our steel industry and to its return to a worldwide competitive posture. Incentives and protections for our industry should further those goals.

Although United States Steel no longer retains the vast lead it once had in terms of jobs created in my district, I am dedicated to restoring the jobs that were lost and to replacing them with new jobs that reflect a commitment to the retraining of workers and to the upgrading of their skills as necessary to keep up with breakthroughs in the steel manufacturing process.

Secretary of Commerce Baldrige testified at one of our recent subcommittee hearings on the U.S. trade deficit that our steel industry must not merely keep pace with industry breakthroughs in other countries, but must leapfrog ahead of its competition in order to reestablish its former position as a leader in the world's steel industry.

Leapfrogging ahead means a commitment to research and development that represents a substantial investment of corporate financial resources.

Mr. Chairman, steel is a multifaceted and complex industry. It is not monolithic. The industry is comprised of integrated producers, fabricators, specialty steel producers, and minimills. One can even include scrap suppliers as a separate yet integral entity. At these hearings on the steel industry, we can better familiarize ourselves with its vast diversity and often competing interests. In my area of Ohio, thousands of jobs are dependent not only on the future health of the big mills but also on specialty steel and fabricating plants, not to mention automobile manufacturing related employment which is very sensitive to the price and availability of steel.

Mr. Chairman, the people of my district cannot and should not be asked to survive another painful period of readjustment in the industry which has provided their livelihood. I look forward to these hearings with great interest bolstered with the knowledge of the mistakes of the past and a commitment to enlightened Federal steel policy that strengthens the entire industry and has as its cornerstone a commitment to rapid adjustment and international competitiveness.

Thank you.

Chairman GIBBONS. Thank you, Mr. Pease.

Our first set of witnesses this morning are members of the Congressional Steel Caucus. We have as its chairman, the Honorable John Murtha, Member of Congress from Pennsylvania—a very fine and effective Member of Congress, not only from Pennsylvania but from the United States. A statesman as well as excellent Congressman.

We also have Mr. Joseph Gaydos, chairman of the executive committee of the Steel Caucus. I want to pay my respects and my good wishes to the Steel Caucus. It is a well-run operation with a fine staff and responsible members and I have enjoyed a good working relationship with this group of Members of Congress for a long time.

I don't know which one of you wishes to speak first.

I see Mr. Hillis is coming to the witness table, also, a member of the caucus. Mr. Hillis is from Indiana and has been a longtime supporter and helper in the field of steel problems.

Which one of you gentlemen is designated to speak first?

STATEMENT OF HON. JOHN P. MURTHA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA AND CHAIRMAN, CONGRESSIONAL STEEL CAUCUS

Mr. MURTHA. Mr. Chairman, I just want to say a few words.

I have testimony for the record.

Chairman GIBBONS. We will put all statements today that wish to be placed in the record in the record in full.

Mr. MURTHA. Mr. Chairman, we have 134 members, Republicans and Democrats in the Steel Caucus. Mr. Pease is a member of the Steel Caucus and a number of members of the Ways and Means

Committee have been valuable to us and we appreciate your having this hearing and considering this legislation which we think is so essential to the steel industry in the United States.

There are 200,000 people unemployed throughout the United States in the steel industry. In 1977 I had 12,500 people employed in the steel mill in Johnstown, there are now around 3,000 that are employed in the Bethlehem Steel plant and the United States Steel plant that had about 750 has been closed down in Johnstown.

The steel industry has laid people off, it has shut down marginal industries throughout the country and the steel workers have made substantial concessions over $1 billion worth of concessions, and I just heard the chairman of United States Steel say a few minutes ago that the productivity of the steelworker has increased significantly in the last couple of years.

But as you can see from the profit in the newspaper they are still barely making a profit. The ITC has ruled consistently that there is subsidized steel coming into the United States. Every time we have a voluntary agreement with one country, Japan has reduced their steel coming into the United States or at least the level, then Europe has an agreement with us on steel coming, but then Mexico or Brazil or South Korea increased the amount of steel coming in.

So the percentage of imports of the amount consumed in the United States have increased substantially. It is up to 26 percent which we think is absolutely unacceptable.

We have what we think is a solution, a balanced solution, a compromise solution to this problem and Congressman Gaydos is going to address the technical details of that, but before he talks Congressman Regula from Ohio is going to talk, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF HON. JOHN P. MURTHA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA AND CHAIRMAN, CONGRESSIONAL STEEL CAUCUS

Mr. Chairman, Members of the subcommittee, and collegues, I want to thank the Chairman of the Sub-Committee on Trade for scheduling these hearings. Given the turmoil in the U.S. steel industry caused by problems of unemployment, idle capacity, and simultaneous jumps in market penetration, by foreign steel producers, of the U.S. domestic market, I believe that it is certainly fitting that the Congress of the United States take a hard look at the devastating conditions prevailing in the U.S. steel industry today.

Conditions confronting the steel industry are the worst they have been since the 1930s. Though the U.S. steel industry is currently operating in excess of 76 percent of its capacity, hundreds-of-thousands of steelworkers still remain permanently unemployed or on indefinite layoffs.

For the second straight month, foreign steel imports have captured over 26 percent of the U.S. domestic market—for the first time ever, foreign steel imports have topped 2 million net tons in two consecutive months. Steel imports for the first two months of 1984 registered an 88 percent increase over the same period in 1983. These few statistics illustrate the cold, harsh realities confronting not only this nation's steel industry but its very economic well-being.

More alarming, however, are the reasons behind why foreign steel producers have been so successful in their systematic march to liquidate this country's vital steel industry.

As a matter of prospective, we must look at the growing trend in foreign steel imports over the past 30 years. In the 1950's, foreign steel imports accounted for 2.3 percent of the U.S. domestic market; 9.3 percent in the 1960's; 15.3 percent penetration in the 1970's, and well over 25 percent in the first years of the 1980's. Many economists and academicians will tell you that this is the price America must pay as the United States transforms itself from a basic industrial economy to a high-tech/service-oriented economy. They will also be quick to attribute the ongoing demise of the U.S. steel industry to its inability to take advantage of past opportunities to reinvest and modernize and to the generous wage settlements which have enabled foreign steel producers to surpass the U.S. in steel production.

There may be room for argument about these academic assertions, however, there is absolutely no room for argument regarding the predatory pricing and trade practices being implemented by foreign steel producers in their zeal to acquire the commanding share of the domestic steel market in the world's largest free market—the United States.

As the result of the hundreds of unfair trade cases that have been filed with the U.S. Department of Commerce in recent years, we have received a thorough education in the strategies, tactics, and lengths to which foreign steel producers and their governments are willing to go to enter the U.S. market. Foreign steel producers are benefiting from government subsidizations ranging from 20 to 40 percent, dumping margins ranging from 20 to 30 percent, and selective and coordinated industrial targeting. These are the real reasons why this country's foreign competitors have been so successful in capturing such a large share of the U.S. domestic steel market. One of the most damaging techniques utilized by foreign competitors is the establishment of industry targeting where coordinated government policy through an assortment of favorable treatments assists the growth of a specific home industry through market regulations, bank loan guidance, tariffs and tax benefits. Among other things, such entities also enjoy preferential status with regard to credit financing, buyer preferences, exemptions from antitrust laws and protection from foreign competition in their home markets.

Beyond this, some foreign governments sanction the development of export cartels where exporters may enter into agreements on price, quantity, quality, design or any other matter in the export trading area. Clearly, the existence of some of these arrangements in the United States would exercise many Justic Department officials.

From these examples, I believe you can understand my impatience with some economists and academicians who characterize the declining conditions of the Steel industry by placing the blame solely on poor U.S. management and unproductive labor while praising the virtue of our trading partners' management effectiveness and worker discipline.

It is, the predatory practices of foreign producers that continue to inhibit free trade and prevent U.S. Steel manufacturers from effectively competing in the open, free marketplace.

If the U.S. steel industry is to be allowed to compete, it must be allowed to focus its efforts on production, modernization and investment. To date, the pursuit of relief by the steel industry under our current trade laws, together with various negotiated settlements, have been proven largely ineffective and inadequate in responding to the trade problems of the domestic steel industry. Therefore, I believe that with the introduction of H.R. 5081, "The Fair Trade in Steel Act of 1984", we have taken a critical and important step in offering a comprehensive solution to an intolerable situation.

This important legislation goes beyond establishing temporary 15 percent quotas in that it requires a quid pro quo, namely, that the steel industry must reinvest in steel at a level equal to its cash flow from steel. Very few, if any, quota measures have such a provision.

In the long run, as the U.S. steel industry modernizes, it will attain a level of competitiveness that will permit it to recapture a substantial share of the U.S. market. Various economic forecasting models indicate that the demand for steel in the United States will grow over the next decade (Chase Econometrics forecasts a 3.8 percent increase in the demand for steel from 1983 to 1990.) The U.S. steel industry must be allowed sufficient time to recover so that the projected growth in the demand for steel in the United States can be met. The steel quota bill clearly is the last chance for recovery for this nation's steel industry.

Clearly, further systematic erosion of our steel industry must be prevented and the jobs of its workers preserved. According to Bureau of Labor statistics, employment in the U.S. steel industry has consistently been declining since the mid-1960s. Historical data shows that from 1960 to 1982, employment declined in the basic steel industry from a high, in 1960, of 651,000 jobs to 380,000 in 1982—actual employment in 1983 was 336,000. Nowhere has this national trend been felt more in Pennsylvania where between 1979 and 1983, over 50,000 steel jobs were lost. Of all the basic steel jobs lost in the Nation between 1979 and 1983, more than one-fourth (25 percent) of the cutbacks took place in Pennsylvania. Entire communities have felt the impact. In Johnstown, Pennsylvania, where unemployment has reached over 27 percent, not one family in the community has escaped the bitter uncertainties of unemployment. Under current conditions the future remains bleak. Bureau of Labor statistical projections indicated that in the coming years, jobs in Pennsylvania's basic steel industry will continue to decline or at best, stagnate.

The steel industry, and the steelworkers and their families, have bitten the bullet—it is now up to Congress and the Government to act, and act expediently. I believe that H.R. 5081, "The Fair Trade in Steel Act of 1984" is the proper vehicle needed to pump live-giving blood back into the nation's steel industry. To continue to allow foreing steel producers to sell government subsidized steel in this country may be "Free Trade", but it defintely is not "Fair Trade". Both foreign and domestic steel producers must be made to play by the same rules. To continue such a free trade policy, is to nourish the financial death wish of this nation's economic and national well-being.

It is time to end the philosophical debate. We must act now to get our steel mills back in operation and our steelworkers back to work.

Chairman GIBBONS. We are glad to have you here, Mr. Regula, and you go right ahead.

STATEMENT OF HON. RALPH REGULA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO AND VICE CHAIRMAN, CONGRESSIONAL STEEL CAUCUS

Mr. REGULA. Thank you, Mr. Chairman.

I want to say that we in the Steel Caucus very much appreciate your willingness to have this hearing to address this problem. It is a serious problem. My colleague, the chairman of the caucus, I think has covered many of the details as will the other members of this panel. I would like unanimous consent to put my statement in the record.

Chairman GIBBONS. Yes, sir, it will be placed in the record.

Mr. REGULA. I won't attempt to go through it in detail but I would point out that I think the problem that confronts us and it goes even beyond steel is the question of achieving fairness in the whole matter of trade. I am sure that in previous hearings you have run into this same problem and obviously because many nations have steel industries and other industries that are owned by the government or certainly subsidized by the government in the form of waiving value-added taxes, for example, in the form of the relationship of the currencies, and it becomes difficult for our industries to compete.

I think, also, something that should be noted is the fact that the United States carries a very substantial amount of the free world defense burden. We have all seen the numbers, where Japan is spending 1 percent on defense, the European allies in the range of 3 percent of their GNP, while the United States spends 7 percent.

Now when you extrapolate that you realize that over the past decade particularly these countries have taken a lot of capital, invested it in modernization of their industries while we were using our capital to provide free world defense to keep the sea lanes open through the Straits of Malacca, for example, so the oil tankers from Japan can move with safety, to the recent developments and requests for a great U.S. presence in the Middle East and I could go on at great length.

We are all aware of this but nevertheless over the years that capital that we have put into the military structure has gone into continuous casters in the steel industry, it has gone into robotics and all types of modernization. That has created a severe problem, plus the fact that this body, this Congress, has imposed substantial requirements on our industries in the form of EPA requirements as well as OSHA and all of this taken together I think has given our industry, epitomized by steel, a difficult situation.

Now, what we are saying in this bill is let's give the industry a breathing space so they have an opportunity to modernize. We are getting mergers in part to bring efficiencies into the steel industry so that they can be competitive in the future.

The other problem is the fact that many emerging Third-World economies feel they have to have two things, an airline and a steel mill. The result is we have overcapacity in the world today and then the temptation, when you have overcapacity, is to dump into whatever market is available and the world's great market is the $3 trillion economy of the United States.

So it becomes a tempting target, particularly since the United States probably more than any other nation in the world has provided access to our market. This is sort of a postwar psychology in which the U.S. recognized that we came through relatively unscathed in World War II and, therefore, it was part of our responsibility to the free world to give nations an opportunity to rebuild their economies. Even to the extent of using U.S. tax dollars to assist them.

It seems to me that in 1984 the other nations have come of age, there is a time now for them to step up and take their share of responsibility in defense for free world security. It seems to me it is time that they stop the practices of dumping and likewise I think—and other types of subsidies to their industries—and it is time we get a fair shake in the world economy.

We are for free trade but we are for fair trade and I think that is the objective of your subcommittee, Mr. Chairman, to ensure that the United States does live in a trade environment that is fair as well as free. We can recognize that this bill is not maybe the ultimate solution but I think that for a temporary period of time we need to provide breathing room for our steel industry to get the advantages of modernization, of technology, of the cost effectiveness of the result of mergers that have taken place, the labor unions trying to help by moderating their agreements, and we have I think in the steel industry an unusual air of cooperation between labor and management and Government likewise has to be a party to a successful solution.

An important feature here is the fact that today the U.S. capacity to produce is less than our needs, even if we were to not have the impact of imports, we would not be able to meet the needs of this Nation. I think in terms of our national security that this is a—something we need to be concerned about and likewise if our industry continues to decline we will be in the position prospectively of suddenly having to pay whatever the market will bear for imported steel because it is the old story that is used in the lost leader in any type of business, where the large ones come in, they sell at a loss through dumping and other techniques until such time as the domestic industry is debilitated to the extent there is no longer capacity and at that point the price is whatever the traffic will bear.

I think in the long haul this would be very detrimental to the economic well-being of this Nation. For these reasons, it seems to me that we should consider this legislation or some modification thereof that might be suggested by others who will testify or members of the subcommittee that will allow the steel industry in the United States to accommodate to the new world that we live in of competition, and that will allow us to maintain a strong, viable capacity both from the standpoint of national security and the standpoint of providing competition in the future.

So that we don't get into a position where we can be victimized by those that would charge any price simply because the capacity no longer exists.

Steel probably more than most industries is not something you can turn on and off. It is something that once you lose capacity it will be a long time before it can ever be restored. You can open a grocery store overnight or you can start up a lot of—you can add another field to a farm but when you are talking about an industry as basic as steel, it is not something that can be restored once production facilities are allowed to decline.

I think I would cite that in the 16th District of Ohio there is a new steel mill being built today, about a $500 million project, it is the Timken Co., and the reason they are going forward is that they recognize that if they hope to compete in the world of tomorrow they have to have modern facilities, they are putting in the very latest in technology and they feel with this kind of development that they will be able to compete with other producers around the world.

We need to encourage this kind of thing and that is basically what we are trying to cause to happen with this legisation that we are here supporting today.

Again I thank you for the opportunity for us to appear before the subcommittee.

[The prepared statement follows:]

Statement of Hon. Ralph Regula, a Representative in Congress From the State of Ohio and Vice Chairman, Congressional Steel Caucus

Mr. Chairman, I want to start by thanking you for holding these hearings on trade issues and for permitting this delegation from the Congressional Steel Caucus to participate.

Mr. Chairman, I wish these hearings were not necessary. I regret that I must appear before you today in support of quota legislation, but the situation confronting the steel industry is critical and I am convinced that the proposal embodied in H.R. 5081, the Fair Trade in Steel Act, is essential.

The steel industry is in the worst condition since the 1930's Depression. The domestic steel industry is currently operating at less than 73 percent of capacity and hundreds of thousands of steelworkers are unemployed.

Import statistics in large part reval why. In the 1950s, steel imports accounted for only 2.3 percent of the U.S. market. By the 1960s, this number had risen to 9.3 percent. By the 1970s, import penetration reached 15.3 percent and so far, imports in the 1980s have not fallen below 20 percent. In January of this year, steel imports captured an unprecedented 26 percent of the domestic market.

This trend must be arrested if we are to maintain future capacity to produce steel.

Free trade in steel is, unfortunately, a myth. Currently, trade in steel is severely distsorted by foreign government subsidies, dumping, and the protection of home markets by most foreign governments.

Because steel is an essential material for any industrial economy all countries wanting an industrial base have sought to develop a steel industry, regardless of its profitability. This has led to increased government involvement in the steel industry and enormous excess world capacity.

Depsite a sharp decline in demand since 1975, expansion has continued. Developing nations alone have added 50 million tons of capacity in the last eight years, encouraged in part by U.S. loans.

The United States, conversely, has had a net reduction in steelmaking capacity of 24 million tons with more reductions likely. In fact, the liquidations of domestic steel facilities over the past year and a half represent the most drastic capacity reductions in the industry's history. The United States is the only industrialized nation that could not meet its own domestic steel needs in the event of a surge in domestic demand such as a national defense emergency.

This is a frightening revalation and underscores an important reason why relief in the form of quotas is needed. Steel is so basic to the national security and the industrial strength of this country that we cannot afford to be dependent on imports for this vital commodity.

Quotas are never popular. Fair and free trade is the ideal, but in the case of steel it is not the reality. The United States remains the only major open market for steel. Our trading partners are abusing our generosity, however, and steel imports are not being fairly traded in the U.S. market.

Investigations have revealed that foreign steel producers are benefiting from government subsidies of 20 to 40 percent, dumping margins of 20 to 30 percent, and from techniques such as industrial targeting and abuse of exchange rates.

These practices have made a mockery of free trade and if allowed to continue could sound the death knell for the American steel industry.

This is in large part due to the fact that most foreign steel companies are dominated by government ownership and control. A 1980 study by the American Iron and Steel Institute indicated that 30 percent of American steelmakers' noncommunist competition is government owned. Unhampered by the need to be profitable, these government supported steelmakers have flooded the U.S. market with dumped and subsidized steel products.

Most major European producers have experienced nine consecutive years of financial losses. Since 1975, Europe's state-controlled steel companies have lost more than $21 billion. They continue to operate through the benefit of $25 billion in government assistance and another $20 billion in grants to modernize through 1985.

In 1974, almost 83 percent of the Japanese steel industry's capitalization was debt—a ratio that would be impossible for American producers to sustain since they must compete for funding in the private capital market. Japanese producers, despite the most modern facilities, high labor productivity and low wages, and an undervalued yen have been unprofitable for the last year.

Steel producers in the Third World are also operating at heavy losses and borrowing to maintain present operations.

Other steel producing regions have adopted effective means of controlling steel trade in their home markets, such as bilateral agreements, minimum pricing, import licensing and quotas.

If the U.S. steel industry is to be allowed to compete effectively it must be allowed to focus its efforts on modernization. Efforts to seek relief under our existing trade laws have proven largely ineffective.

During the last three years the implementation of U.S. antidumping and countervailing duty laws has improved considerably. These laws, however, are outdated and were not designed to address the array of unfair trade practices available to government-sponsored industries. The ineffectiveness of existing remedies is most clearly illustrated by the impact of the 1982 and 1983 trade agreements with the European Community (EC) and Japan.

Prior to 1982, the EC and Japan each accounted for about one-third of U.S. steel imports. In 1982, in order to avoid massive antidumping and countervailing duty penalties, the EC agreed to limit its steel exports to the United States. In early 1983 Japan agreed informally to limit its imports. The intended benefits of the EC and Japanese arrangements have been completely lost, however, by a surge of imports from other sources, largely developing countries. Imports from countries other than the EC, Canada, and Japan have risen 44.4 percent since 1982.

The only realistic and rapidly achievable solution is the imposition of quotas.

H.R. 5081 is not the first quota bill which the Steel Caucus has introduced. In fact we have introduced several quota proposals over the past three years. The bill before you today, however, represents a balanced approach to a difficult problem. It enjoys the endorsement of steel management and labor alike.

The bill would establish quantitative restrictions on all imports of carbon and specialty steel products. Imports could not exceed 15 percent of the apparent domestic market based on historical patterns of trade from 1979 through 1981.

The steel industry desperately needs this time to recapture its competitive edge, to modernize its antiquated facilities. While about 95 percent of Japan's steel is continuously cast, only 55 percent of the U.S. industry, it is projected, will be using this method by 1986.

In short the bill would provide a window of opportunity, a temporary lull from the crippling impact of unfairly traded steel imports.

More importantly, however, imposition of quotas is tied to proof of a firm commitment on the part of the industry to modernize.

The steel industry, like the auto industry, has been blamed in part for its own problems. I will not dispute this, but management and labor alike have, over the past few years, begun working closely together to reduce costs, modernize and improve efficiencies. Obsolete plants have been closed, work rules are being changed and wages and benefits have been reduced.

But this is not enough. In order to finance necessary capital expenditures and carry out plans for modernization there must be relief from unfair imports. The Fair Trade in Steel Act will provide such relief.

It is often overlooked, but plant closings and job losses in steel communities are just one adverse effect of foreign government subsidized steel imports. The entire country suffers the effects of lost tax revenues, reduced ability to meet national security needs, increased costs of government payments for unemployment compensation, and a rising trade deficit.

Chairman GIBBONS. Thank you, Mr. Regula.

Mr. MURTHA. The gentleman from Pennsylvania, Mr. Gaydos.

Chairman GIBBONS. We welcome you, Mr. Gaydos.

STATEMENT OF HON. JOSEPH M. GAYDOS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA AND CHAIRMAN, EXECUTIVE COMMITTEE, CONGRESSIONAL STEEL CAUCUS

Mr. GAYDOS. Thank you, Mr. Chairman.

Your well-deserved reputation as being just and also being patient leads us here to conclude that we are going to get a fair hearing and we are getting it.

I want to thank you on behalf of the caucus and commend you and the committee. You do us the highest accommodation for taking time to hear us today on the Fair Trade in Steel Act along with the other very important items on your agenda.

Chairman GIBBONS. Before you go on, I want to say I have watched you on the special orders, and Mr. Hillis and Mr. Regula and Mr. Murtha, and I know how well you have all presented to the Congress and to the Nation the predicament this country faces.

Mr. GAYDOS. Mr. Chairman, we consider that a high compliment.

Chairman GIBBONS. I have read what you have written and listened to what you have said and you have been a witness before this subcommittee on a number of occasions, all of you. We are glad to have you here.

Mr. GAYDOS. Thank you, Mr. Chairman.

Before I go to my formal remarks I would like to make one point and make it hurredly because it seems to be the crux of the argument on this issue, and that is there has always been the accusation made and supposedly justified in the past that the steel industry has allowed itself to become decrepit, nontechnical and to slip into areas of nonproductivity on a competitive basis within our laissez-faire type of Government which we practice and which I know this committee defends.

I would like to make the point that we have a sterling example and it involves specialty steel, specialty steel was the subject of the same accusation.

It modernized and in the whole world the specialty industrial capabilities in this country are known as the best and the most modern. Yet, under existing trade laws and under practices and anything else you want to refer to, it was unable to compete. The present administration saw fit to put some controls on, specialty steel is now healthy.

Allegheny Ludlum, 100 percent employment, next to Carbon Steel where we have 50 percent unemployment.

So to me, Mr. Chairman, I want to leave that thought with you, and I know you will give it your critical analysis. To me there is an example which says many things but the most important thing it says is that we have to give and provide some kind of help to our industrial base and there is the example.

Mr. Chairman, again thank you for hearing the steel caucus and let me proceed with my formal remarks.

The breakdown of any kind of rules in the world steel community is one of the most important problems we have as an industrial nation; it also is one of our oldest in trade.

The attending physician's office tells me that when a human body loses 25 percent of its blood the situation is considered a medical crisis; if it loses 30 percent death by shock is not unlikely.

The most basic industry has had this year the back to back months of imports at 26 percent, and a third is likely—another month—this comes on the heels of 2 years with imports in the neighborhood of 20 percent.

The aim of the fair trade in Steel Act is to prevent death due to the bloodletting brought on by the eversharp, everpresent swords of subsidy, dumping and foreign government policy; the goal is to give it a convalescence and restored health.

We submit that that is what it will do.

This industry has been bled for more than 10 years, but 10 years does give some necessary perspective.

In 1973—roughly 10 years ago—there also were worries about the cut-throat pricing of imports, and steel was designated as a prime player in the anti-inflation effort.

Then came the world steel shortage of 1974, and importers who had been selling plate here at $119 a ton raised their prices by 370 percent. The profit was taken, the shortage subsided, and cutthroat pricing took hold once again.

In 1977 a small Oregon company, Gilmore Steel, filed a dumping case on plate against five big Japanese steelmakers. The companies covered 70 percent of the plate coming from Japan, and those named were believed to be among the low cost producers in the world. Dumping margins of up to 32 percent were found.

One of the named Japanese companies was Nippon Kokkan [NKK]. NKK had just put on line phase I of its state-of-the-art Ohgishima Works in Tokyo Bay in 1976. And I know the chairman toured that company. This is the fantastically efficient integrated mill that almost all official visitors are shown; and they are told there is no Government money in it.

So it might be worth a short side trip to see how a low-cost producer is put together. NKK carries 1 trillion yen in long-term debt incurred to build Ohgishima, according to a 1982 story in the Japan Economic Journal.

References from Japan report that NKK's government-connected lenders on its debt include the Japan Development Bank, the Industrial Development Bank of Japan, the Long-Term Credit Bank of Japan and the Nippon Securities and Credit Bank.

These appear to be the signal loans that tell other banks and their affiliated trust and insurance companies to join a big project; that say the Government expects them to.

In this category the heaviest lenders appear to be those in NKK's official industrial family that is centered around the Fuji Bank and Marubeni Trading Co. But other big nonfamily lenders include the banks and institutions of other groups: Mitsui; Mitsubishi; Sumitomo; and so on, down the list of big, export-oriented concerns.

NKK stockholders include the Industrial Bank of Japan and the Long-Term Credit Bank; but as they say, there is no Government money per se. Banks, trusts and insurance companies hold about 26 percent of NKK's stock.

About 80 percent of NKK's long-term debt over the years Ohgishima was building appears to have been with banks and insurance companies, according to NKK annual reports.

Interest rates paid range from a low of 2.25 percent to a high of 22.8 percent. The bulk of the loans appear to have demanded interest of from 4.25 percent up to 13.5 percent.

Thus does a low-cost producer come on line. All of Japan's ultramodern steel industry was put together in a similar fashion, Mr. Chairman, and it was built by borrowing 83 percent of the cost from family members, from cozy competitors and from the Government institutions I have referred to.

The Government and the groups built this industry at a time when private investors would not touch American steel because our rate of return was too low. Steel was a bad investment. Yet our return on sales during those years—and this is very important—generally was higher than that of Japanese companies.

By the way, NKK has a very modern platemaking facility at Ohgishima.

Back to the plate case, Gilmore Steel proved what everyone suspected; even low cost producers aren't above dumping. This caused a flurry of concern and activity. Our President at the time even acknowledged that the Government had been "derelict" in enforcing our own trade laws.

All of this concern produced the trigger price mechanism, an administrative means of trying to screen out unfairly traded steel. It never really worked. For what reasons, I think we all have to draw our own conclusions.

Proof of the failure is the big Mitsui Trading Co. criminal case that was filed in 1982. This case involved steel traded during the years of the TPM. And this involved $100 million. The product lines were different, but this case also had some low-cost producers in it again.

Mitsui paid $11 million in fines rather than go to trial. I believe it is the first criminal case ever filed in the steel trade here in this country. The 21-count indictment said the purpose of the alleged conspiracy was to circumvent the TPM. Steel came in all along the Pacific coast and even on the gulf coast.

Coincidentally, the third-ranking supplier of steel to Mitsui Trading Co. in 1981 was Nippon Kokkan, which has the ultramodern showplace on the bay. Steel is one of Mitsui's chief imports into the United States.

Coming forward in time, the American steel industry between 1981 and the present has fought and proved scores of subsidy and dumping cases before the U.S. International Trade Commission of which this committee is fully aware.

The U.S. industry has won against almost every foreign nation selling steel in this market.

Most of these foreign producers are said to have some competitive advantage; that is, an edge in labor costs or technology, or both.

But when rightful offsetting duties are imposed, these foreign producers for some reason cannot compete in this market no matter what competitive advantage the experts have attributed to them.

The Europeans have negotiated a restraint agreement rather than be shut out of this market by properly determined and rightful countervailing duties. And the Japanese have held back voluntarily.

But the developing nations have vastly stepped up their pace in sending steel here, and this is a reason the Fair Trade in Steel Act is necessary today.

Just a few days ago a second criminal indictment was returned in a steel case on the west coast. This one too is against one of the low-cost producers, the South Koreans.

A trading company, Daewoo, which handles steel from the 100-percent government controlled Posco operation, is accused of conspiring to violate the antidumping laws. The product is common steel pipe.

A measure of the seriousness is that $100,000 bonds have been required of nine defendants; bond never has been required before. The pipe in the case was entering through ports on the west coast and on the gulf.

By the way, the American industry in recent years has had to close plants on the west coast and again down on the gulf coast.

As for South Korea generally, imports here have increased 235 percent since 1973 as the government expanded its industry; and imports were up 63 percent in 1983 over 1982. In addition, the ITC this month determined that pipe from South Korea and Taiwan has been dumped in this market.

New subsidy findings have been returned this month against Brazil; they are in addition to earlier findings, and this time the remedy is a 37-percent countervailing duty on the product line involved—37 percent.

Brazilian imports are up 716 percent since 1973, Mr. Chairman, and in 1983 they were last year 108 percent above 1982. I have read that Brazilian steel exports generally are up 40 percent for the first quarter of this year.

My point is that dumping subsidy and foreign government policy are the market mechanisms in steel today. Efficiency, technology, and the cost of labor have less to do with the market than the will and the resources of foreign governments, it appears.

Of the 12 countries whose imports surged in this market in 1983, 10 of them are government controlled, and the lowest degree of government control in those 10 is 74 percent. Half of them are 100 percent government controlled. Three are expanding.

Meantime, this is the only big open market in the world, and the world's overcapacity obviously is directed here. The Europeans have quotas, and the others have some way of keeping out the things that they make at home. The result is that American workers lose good jobs; families lose their futures; and whole communities decline.

We have lost 270,000 such jobs since 1974, Mr. Chairman, and we stand to lose many more unless this Government takes notice of what is happening and how and why. We lost about 20,000 jobs in the 1983 closings.

This industry needs an opportunity to modernize so it can meet even competition that is subsidized—and we can do that—and that sells at dumping rates.

We cannot modernize like the Japanese. This would bring a blizzard of Federal indictments for violations of banking and antitrust laws. The Government will not finance the companies as they do in South Korea and Brazil and other developing nations; nor do our companies want this.

The American industry must function under the American system; it must recruit volunteer capital; we cannot conscript it for them.

Therefore, if this industry is to attract investment it must have profit. If it is to have profit, it must have a market that is not destabilized by dumping and subsidy. To neutralize dumping and subsidy, which prevails in most foreign steel today, there must be some enforceable form of restraint.

The 15-percent quotas of the Fair Trade in Steel Act are enforceable.

Only the United States among steel producing nations is unable to meet its domestic demand without imports. With 15 percent quotas in place, this still would be the most open market in the world.

And, anyone who thinks a slight increase in price due to quotas which may occur is bad ought to think about the 370 percent increase on plate that came the last time we did not have domestic capacity sufficient for domestic demand. At that time they were asking premiums of $200 and $300 a ton on carbon steel.

Whatever self-inflicted wounds some might blame this vital industry for, it is being bled much more heavily by the trade ware practices of subsidy and dumping, and by the policies of foreign governments.

The American industry and its jobs still are a cornerstone of the Nation's economy; and steel still is the foundation of a substantial manufacturing economy, and of our national defense.

The industry has pledged to modernize. The bill requires it. The industry is modernizing now even under adverse conditions. Passage of the act would allow a comprehensive and planned modernization rather than one that does half of the job, or that is a series of Plan B's.

Moreover, if we do not write legislation, we had better start drafting snappy epitaphs for some big companies in this country. Sustained hemorrhaging at 26 percent of the market, and above, is more than even this industry can take.

Steelworkers and steelmakers have been telling us for more than 10 years what is going on. Now they have proved it at great expense by winning dozens upon dozens of trade cases under existing laws. But they cannot continue to fight it out indefinitely, product by product, company by company, country by country. The expense obviously in dollars and jobs is just too much.

Their massive efforts have made the case. Only one thing can bring law to a lawless market now; and that is a firm assertion by this Congress of the United States. Only this legislation, this committee, will provide the comprehensive answer that is necessary.

Quotas would do what our trade laws have failed to do, Mr. Chairman; they would neutralize subsidy, dumping and foreign government policies that, like governments at war, recognize no rules.

This is why we urge favorable action on the Fair Trade in Steel Act of 1984.

I will close with this one side observation. Mr. Chairman, I think developments within the last 48 hours prompt me to ask for just a little more time to put on record this limited additional information.

With your permission, I will do it.

Chairman GIBBONS. Go right ahead.

Mr. GAYDOS. NKK, Nippon Kokkan, Tuesday afternoon announced it will buy 50 percent of National Steel, which makes NKK the first foreign steel maker to enter this American market on this scale. They are marrying into the American steel community. NKK, second largest steel maker in Japan, fifth largest in the world, comes from a bigger, more powerful family, Japan's Fuyo family of enterprises.

The center of the family is the Fuji Bank and the Marubeni Trading Co. The Fuji Bank, and its Yasuda Insurance affiliates, and Marubeni, hold about 12 percent of NKK's stock, according to reference work made available by the Japan Economic Institute.

Other distinguished members of the Fuyo family are Nissan Motors, which we know as Datsun, and Hitachi. As I understand it, members of Japan's business families prefer to do business with one another whenever possible. That is understandable. So Nissan is a steady market for NKK in supplies of steel, and so on.

Marubeni Trading Co. was ranked last year by Forbes magazine as the fifth largest non-American multinational in the world. Were it an American multinational, it would be the third largest.

In addition, Nissan is ranked 17th; Hitachi is 30th; the Fuji Bank is 98th; and NKK is 100th.

If the revenues of these five Fuyo family members shown on this ranking were combined, as they should be, they would total $98.6

billion. This is $1 billion above the largest American multinational, and $30 billion above our No. 2, Mobil, in this country.

Now, all of these firms, by the way, whether as lenders or reliable customers, helped build the Miracle Mill in Tokyo Bay. However, it is clear that our newcomer comes from a good family.

Nevertheless, I find it ironic, Mr. Chairman—and that is the point of the statistics—I find it most ironic that a merger between National Steel and United States Steel was dropped because it became clear that the U.S. Department of Justice would not allow it on antitrust grounds.

The shortsightedness, Mr. Chairman, of our antitrust policy also needs review in light of world practices, and I am hopeful and expect that maybe one of our committees in this House would do just that. This is another reason, Mr. Chairman, why we need—I wish to emphasize this—temporary quotas.

I thank you for your patience.

Chairman GIBBONS. Well, we thank you for your very well presented statement.

Mr. Hillis.

STATEMENT OF HON. ELWOOD HILLIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA AND VICE CHAIRMAN, EXECUTIVE COMMITTEE, CONGRESSIONAL STEEL CAUCUS

Mr. HILLIS. Thank you, Mr. Chairman.

I ask that my statement be inserted in the record. In the interest of time, I would like to just speak briefly and summarize it.

First of all, I want to begin by saying it is an honor to be here this morning. I certainly count it a privilege to appear before the committee as part of the task force. I don't intend my words to be self-serving; I feel this task force is perhaps the most effective task force in Congress. I say that not only because of the number of membership, but the fact that it is not only bipartisan but it is a single purpose and policy.

There is agreement on what road we should take. That road certainly is the Fair Trade in Steel Act, H.R. 5081. We have been together as a task force for many years now, actually, and we have dealt and struggled with this problem, and we have watched the situation become more grave year by year, and we were born in adversity and we have watched the adversity get greater.

We think now is the time for action, which is very, very important, because the legislation really is vital to American interests. I think without it, the domestic steel industry as we know it today will continue to slide, and there will be disastrous implications for both our national economy and our national security.

As the other speakers have said—and we have tried to complement each other and not duplicate and take your time unnecessarily—the industry as we know it is in crisis. Unemployment during the height of the last recession in the industry reached 45 percent, and even now we are talking about a recovery and industrial expansion; but the figures I have seen stand as high in this industry for unemployment as 29 percent.

As our chairman, who has done such an able job in leadership of the caucus, has said, there are more than 200,000 steel workers who have lost their jobs in the last 8 years, and capacity has fallen at a disastrous rate. From the national standpoint, this can't be allowed to continue. We have to find an answer for it.

The steel worker in our country in this industry is by nature an individual who doesn't really want government intervention. He is a very strong individual. Those familiar with the way steel mills operate—you know it is not only strenuous; it can be a dangerous occupation. The workers that man it will continue to be independent. They are proud of what they do. And all of their request is the right to compete fairly in the domestic and international steel market.

This is our point: Our industry has not been given that chance to compete fairly. It is difficult to see how the American steel industry can compete, much less modernize in an environment where the trading practices are as blatantly unfair as Mr. Gaydos and others have outlined for you.

First of all, you have the problem of the substandard wages that are paid abroad, and they are paid in facilities that are extremely modern. They are not overly intensive as far as labor is concerned. The facilities that are manned not only in Japan but throughout the Third World are the latest in technical design and the most modern in the world. We find in Mexico, for example, the wage in the steel industry is $2.37 an hour; in Taiwan, $1.98; in Korea, $1.72.

The Congressional Research Service found in 1982 wages, including fringe benefits, in America, were $22.74. Now, American steel workers have made sacrifices in this level in both wages and benefits in attempt to become more competitive. But how can they give to compete against $1.72 an hour, and can a steel worker live in our society at $1.72 an hour? Mr. Chairman, that is impossible; we all know that.

Now, there has always been the claim that our industry is inefficient and that the companies went out and bought oil companies and other concerns rather than investing in modernization. I don't think that this claim holds water, either. There is a consistent effort being made to modernize American industry, but we need more help in speeding along this course.

For example, in my district, Bethlehem Steel Corp. has modernized, built one of the most modern plants in America and has continued to modernize it, and they intend to spend $340 million to install continuous casters there in the Burns Harbor, IN plant, and Sparrows Point, MD plant.

The installation of modern equipment and renewed efforts of the steel workers will not by itself be enough. That is the point I want to make to the committee. For example, Bethlehem installed a 110-inch plate mill in the Burns Harbor facility in 1978. Not once in that 6 years, including this year, has the plant been used and operated at capacity. At capacity, it would have employed 300 workers. Currently, 66 people work there. Yet, it is the most modern plant in America in that type of production. Despite their best efforts, it is impossible for them to compete against foreign steel.

Recently, the task force held hearings in Gary, IN, and we had a presentation by Bethlehem on this very point. They showed us a picture of a large steel plate that had been produced at Bethlehem and a very similar—in fact, almost a duplicate—plate from Spain. The cost of the plate, as I recall, that had been produced at Burns Harbor, IN was at $345. This is without freight, without profit. That was the bare cost when it came out at the end of the line. The cost of the same type of material, a duplicate, as far as you can tell—landed in Chicago, freight paid and ready for sale to the customer—what the customer pays would be $285. It was almost $100 less from Spain.

I think that illustrates the point. Here we have the most modern plant in America producing efficiently, and yet their product, without freight or profit added in, was $70 to $80 more than subsidized steel landed in Chicago.

The critics can say that the industry has not modernized, but I think that both the industry and labor agree that it is difficult to see where the capital will come under present conditions. The OTA has estimated the industry will need to spend more than $30 billion just to replace obsolete equipment. The American Iron and Steel Institute estimates that over the next 10 years they are going to have to spend $60 billion in 1982 dollars to bring the facilities up to the world class standards. That is what a lot of the problem is.

We have, as I see it, given them an opportunity to do that. Capital expenditures for modernization have fallen in the past decade to a dangerous level, and they will continue to fall this year. The industry has to look for modernization basically toward funds that are internally generated, and that is extremely difficult to do when you are not making a reasonable profit. It is extremely hard to do when you are trying to meet a continuing influx of cheap foreign policy.

Notice, there has been some reference here to national security. I serve on the House Armed Services Committee, and I recognize that aspect of the problem very clearly. My colleague, Congressman Regula, talked about the burden that we carry of the free world's defense obligations, and efforts we are making in that area. We are trying to build a 600-ship Navy in this country, and part of the reason for that is the pending crisis in Iran and the Iraqi-Iranian war and what happens if the Straits of Hormuz are closed. We have taken that on as an obligation of ours, as far as the rest of the free world is concerned.

I am alarmed at the prospects of what will happen in this area if we, as a nation, continue to become more increasingly dependent on foreign steel for domestic needs. It is a most important industrial material, but it is a critical component not only of our infrastructure but also on everything that is connected basically with military equipment and military defense.

Our Chairman, Mr. Gaydos, has talked about what happened when there was a shortage in this country of steel back in 1973 and 1974 and what happened to the prices and how premiums were charged that were extremely large. We certainly don't want to see that continue again, and it could well happen as we see our capacity go down and world supply come up.

Once lost, the American steel capacity is not easily replaced. Closed plants are not mothballed; they are scrapped and sold for junk, and the highly skilled workers move away.

When you take up the railroad tracks, the train doesn't run any more. That is the situation we are going to see in this industry, Mr. Chairman.

Indiana, I should say with pride, is the No. 1 steel producing area in the United States. But I can't say that with pride because the plants have closed in the old areas, and we have gotten it by default. Even there, our utilization and employment is in the 60 and 70 percentile range. So we are not on a good course.

It is not impossible to see in the future a time when our country can find itself seriously dependent on foreign steel in a crisis, as dependent as it was on foreign oil in 1973 and again in 1979. We all remember those days very well. The implications that this would have are most serious. They not only affect us, but they would affect the entire free world—our European and other allies, as well. They look upon us to provide both direct and indirect strategic support in our commitments to NATO and other alliances, and our efforts to give assistance could be greatly hampered, if not made impossible, by a long-term steel shortage that could not be reversed.

This legislation, Mr. Chairman, the Fair Trade in Steel Act, will not give the industry a free ride. It gives it 5 years to modernize while it is protected from unfair foreign steel trading practices. During this time, the industry will be monitored to ensure that the modernization takes place.

I want to say in conclusion, Mr. Chairman—and wind up my statement this way—we have talked in broad generalizations today about the interest to America and what it means to the industry, what it means to our national interest. We have talked in numbers of unemployment. But I want you to know there is a lot of human hardship out there in these districts where these plants have closed.

I don't have the plants themselves in Indiana in my district; I come up closely to them. They are in my colleague Congresswoman Hall's district. But I have a lot of the employees. I asked them to write me and let me know what the impact of the last 5 to 10 years in the steel industry has meant to them. In a matter of about 10 days, I got 280 letters, which I have before me here today. I want to read just part of one of them.

This is symptomatic; you could find it duplicated time after time. This is:

> Dear Congressman Hillis: I wanted to write and tell you that I have been working for a steel mill for 10 years, and that out of those 10 years I have been laid off for 3 years. The latest layoff lasted 22 months. In the April 17 issue of the Hammond Times, there was a front page story saying that my plant is to be closed.
>
> "Now, so far since I have been laid off, I have lost my new car; and I am about to lose my house. Now, I'm not crying on your shoulder, but as a steelworker I think something should be done about all of this imported steel.
>
> "When I worked in the mill, I thought I was making a good life for my family and myself. But now I feel as though my country doesn't want to do anything to help the mills.

That is the basic story that runs through all of these 280 letters, and they are just a drop in the bucket, Mr. Chairman, of what has happened across the steel producing areas of this country.

Now, I want to leave this thought with you: In some of the other crises that have affected the country, particularly in the automobile industry, we were able to solve those either with corporate guarantees, such as the Crysler situation that saved supposedly hundreds of thousands of jobs, and because of action in the Congress—without legislation—I think we played a big role in seeing a voluntary quota system met with the one producer of Japan that was coming in and taking 25 and pushing toward 30 percent of the automobile market.

But that kind of arrangement isn't possible here because the steel, when you solve that by unilateral agreements with one country, it starts somewhere else. It is spreading the problem. That is why legislation is needed so badly here in the quota system that affects everybody and treats everybody the same.

As long as the world knows what the numbers are, I think we will all be able to live within this framework. If we don't do this, I say we are witnessing the demise of a vital American industry, and we either act now—and if we don't act now, we will never get it reversed—the current legislative and regulatory procedures just are not working. A comprehensive solution, I think, is available in this bill and it is needed, and I certainly hope the committee will look upon it very favorably.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF HON. ELWOOD H. HILLIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA AND VICE CHAIRMAN, EXECUTIVE COMMITTEE, CONGRESSIONAL STEEL CAUCUS

I want to thank the Members of the Ways and Means Subcommittee on Trade for this opportunity to testify in support of H.R. 5081, the Fair Trade in Steel Act of 1984.

I believe that this legislation is vital to the interests of America. Without it our domestic steel industry will continue its precipitous slide, with disastrous implications for our national economy and security.

The American steel industry is in crisis. During the recent recession industry unemployment reached 45 percent. Even now, during the recovery, it stands as high as 29 percent. Within the last eight years more than 200,000 steelworkers have lost their jobs. Capacity utilitzation has fallen as low as 47 percent. Clearly this must not be allowed to continue.

The American steelworker is, by nature, not an individual who welcomes government intervention. Those familiar with steel mill operations recognize that steelmaking is a strenuous and even dangerous occupation. Steelworkers have always been, and will continue to be, independent—produly and stubbornly so. All that they ask for is the right to compete faily in the domestic and international steel market.

The American steel industry has not been given a chance to compete fairly. It is difficult to see how the American steel industry can compete, much less modernize, in an environment where trading practices are so blatantly unfair.

For example, the unanimous final injury determination of the International Trade Commission found that dumping margins for Brazilian plate imports ranged from a minimum of 50 percent to a maximum of 100 percent. This is not an isolated example of dumping. Many nations have engaged in this practice in an effort to make inroads into the American market.

It is unclear how American steelworkers are to compete against substandard wages paid to steelworkers in developing countries. The Congressional Research Service found that 1982 wages, including fringe benefits, were $22.74 for American steelworkers. In Mexico the comparable wage was $2.37, in Taiwan $1.98, in Korea

$1.72. American steelworkers have sacrificed wages and benefits in an attempt to become more competitive. Yet how can such workers compete against wages of $1.72 per hour?

Those opposed to this legislation claim the American steel industry is inefficient. This is refuted by a recent study by World Steel Dynamics, a branch of Paine Webber, which found that the productivity of American integrated steelmakers has surpassed that of Japan, West Germany, France, and the United Kingdom.

It is claimed that steel management is unwilling to make necessary investments in order to modernize. While this was once true it is no longer. American steelmakers recognize that they must modernize their operations to compete in the international market, and they are responding. For example, Bethlehem Steel Corporation, to cite only one example, has announced plans to invest $540 million to install continuous casters in its Burns Harbor, Indiana and Sparrows Point, Maryland plants.

Installation of modern equipment and the renewed efforts of American steelworkers will not, by itself, be enough. For example, Bethlehem installed a modern 110-inch plate mill in its Burns Harbor facility in 1978. Not once in the six years since then has it operated at capacity. At capacity this mill would be employing over 300 workers. Currently it employs 66. Despite their best efforts, it has been impossible for Bethlehem to fairly compete against foreign steel.

Critics of the steel industry say that the industry must continue to modernize. Industry and labor agree, but it is difficult to see where this capital will come from given present conditions. The Office of Technology Assessment found that the industry will need to spend more than $30 billion just to replace obsolete equipment. The American Iron and Steel Institute estimates that over the next decade the industry will need to spend $60 billion (in 1982 dollars) to bring all of its facilities up to world-class standards.

The industry's inability to further finance modernization is evident. Capital expenditures to modernize have fallen during this decade, and will continue to fall this year. The industry must increasingly look towards internally generated funding for its needs. It is difficult to see how this will be possible given the continuing influx of cheap foreign steel.

The consequences of this are evident. I fear that the long-term consequences are even more ominous.

As a Member of the Armed Services Committee, I am alarmed at the prospects of the United States being increasingly dependent on foreign steel for its domestic needs. Steel is our most important industrial material, and is a critical component of our infrastructure. There is not a major American sector which does not depend heavily on steel, be it manufacturing, construction, energy, tranportation, mining, or agriculture. In addition, steel is a vital component of military equipment such as tanks and guns.

In the event of a steel shortage the United States would be open to rapid price escalation of its steel imports. This situation occurred in 1973-1974. Because of shortages foreign steel producers were able to command an average premium of $60 per ton, or approximately 25 percent above the domestic price. During this period the United States paid $1.8 billion for the privilege of buying imported steel. This was at a time when foreign steel accounted for 16 percent of the domestic market. In January foreign steel imports were 26 percent.

Once lost, American steel capacity is not easily replaced. Closed plants are not mothballed. They are scrapped and sold for junk. Highly skilled workers move away.

It is not impossible to foresee a time when America would find itself as seriously dependent on foreign steel as it was on foreign oil. The implications that this would have are most serious. This would affect our European and other allies as well. Many of them look toward the United States to provide both direct and indirect strategic support. Our efforts to give them such assistance would be greatly hampered by a long-term steel shortage.

The Fair Trade in Steel Act will not give the American steel industry a free ride. It will give it five years in which to modernize itself while protected from unfair foreign steel trading practices. During this time the industry will be monitored to insure that modernization continues.

I have brought with me today letters that I have received from my constituents asking that the Congress act now to save this industry. I would like to read to you part of a letter which I have recently received:

DEAR CONGRESSMAN HILLIS: I wanted to write and tell you that I have been working for a steel mill for 10 years, and that out of those 10 years I have been laid-off for 3 years. The latest lay-off lasted 22 months. In the April 17 issue of the Hammond "Times" there was a front-page story saying that my plant is to be closed.

Now so far, since I have been laid-off, I have lost my new car . . . and I am about to lose my house.

Now I'm not crying on your shoulder, but as a steelworker I think something should be done about all of this imported steel.

When I worked in the mill I thought I was making a good life for my family and myself. But now I feel as though my country doesn't want to do anything to help the mills.

We are witnessing the demise of a vital American industry. We must act now if we are to reverse this. Current legislative and regulatory procedures are now working. A comprehensive solution to this problem, as set forth in H.R. 5081, the Fair Trade in Steel Act, is clearly needed.

Chairman GIBBONS. Thank you.

Mr. GAYDOS. Since Mr. Murtha left, Mr. Chairman, that would conclude our presentation. And I want to sincerely state for the record that I feel good that this matter is before a committee with the sensitivity to the problem. And what the ultimate result is, I don't know; but you have an understanding of the problem. It is a complicated subject, but this committee has had so much expertise and knowledge developed over the last 15 to 20 years; I just feel great about it.

I have been authorized to say on behalf of the 150-member caucus that we feel it is getting proper consideration.

Mr. HILLIS. I would ask unanimous consent that the correspondence here be made part of the record.

Chairman GIBBONS. All right. We will try to make it an appendix. It is very large. I think I will turn that over to the staff printer and see what we can do about them. I don't want to exclude any of the letters, but I don't want to set a bad precedent, either.

We will look at it. I am sympathetic, but I want to keep the costs down.

Mr. HILLIS. All right.

Chairman GIBBONS. I want to say again on behalf of myself, as chairman, and the committee, that I have appreciated working with the caucus and with the staff you have. It is a very distinguished staff. You have been very responsible people and very aggressive people. I think you have done an excellent job.

Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

I would like to join you in expressing appreciation to the members of the steel caucus for some excellent testimony this morning. It has been outstanding.

My great interest in this legislation is in providing an opportunity for the American steel industry to modernize and become more competitive. I know that that is of great interest on the part of all the members of the steel caucus.

In my home county where we once had 8,000 steelworkers at one plant and now have about 3,400 workers, we are making strenuous efforts to try to revitalize the economy of the area. As I am sure I don't have to tell you, when one attempts to do that, one adds jobs at the rate of 50 or 75 at a time from new companies starting up. And those efforts, certainly while they are important, can be washed aside when a single employer has to lay off 3,000 or more employees.

So this is really of considerable importance to me, as I say.

For the record, could you, Mr. Gaydos, or Mr. Hillis, outline the provisions of the bill which do require reinvestment so that we will all know what they are?

Mr. GAYDOS. The provision in there—do we have a copy with us—the provision that you ask for, Mr. Pease, is quite specific. It was framed and fabricated, put together through many hours of work between labor and management.

American Iron and Steel worked with us in putting this together this morning. It has full acceptability of labor and management. What labor wants for modernization, and management, they are in support of it.

I would beg off from answering the fine distinctions that may appear because you will have the experts on after us, I understand, and they will probably give you a much better response than I could at this time without reading verbatim that particular provision which takes a paragraph or two.

Basically, that is where it came from. So I would think it would speak for itself.

Mr. Hillis wants to add something. I will yield to him.

Mr. HILLIS. I would just submit we put this in the record, because that information is available and it should be in the record.

Mr. PEASE. All right. According to our subcommittee staff, the bill requires the industry to reinvest at a level equivalent to its cash flow for steel operations. The staff seems to be of the opinion that that standard has already been met by the industry and is being met by the industry.

The level of investment, as we know, is not enough to do the job, really. But I am sympathetic to the industry. It is hard to invest money when you are not making a profit. There are no creditors lined up to loan money under those circumstances.

So I am concerned about the catch-22—how do we get out of the cycle of low profits, making it difficult for the industry to modernize so it can generate more profits and be more competitive?

Mr. HILLIS. Mr. Pease, I think that is a very good analysis and a very crucial point. I look upon the legislation first as a very strong signal to the world community and perhaps a turning point in the cash flow positions of the industry, because as the quotas take effect the cash flow of domestic industries, in my opinion, should become somewhat better, in my opinion.

As I recall the hearings at Gary, I believe it was Bethlehem I asked a similar question of, and they estimated even with this legislation and this 5-year plow-back and the period of quotas, the American industry as a whole will still only be about 60 to 70 percent manned with continuous casters. They are very low today. But with that, they should be competitive worldwide.

That is why I think we are at such a watershed point, to try to make that step of investing and coming up to speed, or some day down the road our solution might be nationalization of steel, such as happened in other countries, and that historically is not a very good route if you look at Britain or France or other countries that had to do that. But that is the choice in the long run, I believe.

Mr. PEASE. Mr. Hillis, you would be particularly well qualified to deal with my concerns about national security. Obviously, the steel industry is basic to the defense of our country.

I am wondering whether the Armed Services Committee or the Steel Caucus—either one of these groups—has made any calculations as to what the minimum level is from the national security point of view for the steel industry in the United States.

Have you been able to quantify that at all?

Mr. HILLIS. I am sure that such statistics and information is available. There was quite a study made a couple years ago by the Air Force team on the general needs of national security and the shortcomings generally in our industrial base. I would be happy to submit that for the record, particularly as far as steel is concerned.

[The following material was subsequently received from Mr. Hillis:]

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SUBCOMMITTEE ON SEAPOWER AND STRATEGIC AND CRITICAL MATERIALS
VETERANS' AFFAIRS
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
SUBCOMMITTEE ON HOSPITALS AND HEALTH CARE

CO-CHAIRMAN, CONGRESSIONAL AUTOMOTIVE CAUCUS
EXECUTIVE BOARD MEMBER, CONGRESSIONAL STEEL CAUCUS
MEMBER, THE RURAL CAUCUS

May 4, 1984

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MAY - 4 1984
Ways and Means
Subcommittee on Trade

The Honorable Sam Gibbons
Chairman
Subcommittee on Trade
House Ways and Means Committee
Washington, D.C. 20515

Dear Chairman Gibbons:

At the conclusion of my testimony last week during the first hearing on H.R. 5081, the Fair Trade in Steel Act, I was asked several defense-related questions relating to steel utilization. This letter should provide data in answer to those questions.

The most relevant study on defense requirements for steel and the percentage of these requirements met by foreign steel would appear to be a July 1983 study prepared by Data Resources, Inc. for the Office of the Secretary of Defense. This study, "Defense Economic Impact Modeling System", provides data on total steel imports, steel imports for defense, the defense share of total imports, and total steel requirements for defense.

Following the April 26 hearing I contacted the House Committee on Armed Services for their assistance. They, in turn, spoke to the Congressional Research Service (CRS). Mr. David Cantor, a CRS economic analyst, prepared the enclosed memorandum which provides figures for 1981-1983. They are taken from the July 1983 study cited above, parts of which are also enclosed. I believe this memorandum should answer the Subcommittee's questions.

The Defense Logistics Agency (DLA) was also asked to supply data. Enclosed is a DLA memorandum which details direct purchases of steel products from domestic and foreign suppliers.

A comparison of the data from the CRS and DLA reveals certain differences. The CRS memorandum estimates DOD's foreign steel purchases at approximately 11.9% for 1983. In contrast, the DLA analysis of its procurements for the period estimate this amount (according to our analysis) at approximately 42.8%.

page 2
May 4, 1984

Further inquiry was made with both CRS and DLA in regard to these differences. The CRS analysis includes the large majority of steel uses by DOD, including steel contained in end products purchased by the Department. In contrast, the DLA compilation reflects purchases of steel solely for Federal Supply Class 9515. These purchases reflect steel products that are not generally further fabricated into end products. The analyst for CRS estimates that the DLA procurement roughly accounts for ten percent of the Department's annual needs.

Finally, the DLA figure is based on Fiscal Year 1983, the CRS estimate on that of calendar year 1983.

Both the CRS and DLA feel that these statistics are more generally in agreement than disagreement. As such, they provide differing perspectives on steel purchases made by the Department of Defense.

I hope that this information has been of assistance to the Subcommittee. Please do not hesitate to contact me regarding this or any other matter regarding this legislation.

Sincerely,

Bud Hillis

Elwood H. "Bud" Hillis
Member of Congress

H:d

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

May 1, 1984

TO : Subcommittee on Seapower and Strategic and Critical Materials
House Committee on Armed Services
Attention: David Price

FROM : David J. Cantor
Specialist in Industry Economics
Economics Division

SUBJECT : Steel Imports for Defense

This memorandum responds to your request for information on steel imported for defense procurement in the period from 1981 to 1983.

Based on the results of a 1983 study undertaken for the Department of Defense, 1/ it is estimated that a total of about 3.9 million tons of steel were imported for defense production in the three years from 1981 to 1983. These imports represented 7.3 percent of all U.S. steel imports during this period. They accounted for about 13.2 percent of total defense requirements for steel. These data are presented year-by-year in table 1.

The study, on which these estimates are based, was prepared for the Department of Defense by Data Resources, Incorporated (DRI). The study presents its results in constant 1982 dollars. We have converted the DRI data to tonnage by multiplying the dollar share of total steel imports by the total quantity of steel imports. Similarly, we calculated the total quantity of steel required for defense by dividing our estimate of steel imports by the DRI data on the import share of total defense requirements. Copies of the pages from this

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1/ U.S. Dept. of Defense. Office of the Secretary of Defense. Defense Economic Impact Modeling System. Washington, 1983.

TABLE 1. Steel Imports For Defense Requirements As A Share of Total Imports And Total Defense Requirements for Steel, 1981 -1983 (thousands of short tons and percentages)

	1981	1982	1983 a/
Total Steel Imports quantity	19,898	16,663	17,070
Steel Imports for Defense quantity	1,163	1,226	1,516
Defense Share of Total Imports (percent)	5.84	7.36	8.88
Total Steel Requirements For Defense quantity	8,292	8,651	12,748
Defense Import Share of Total Steel Requirements for Defense (percent)	14.0	14.2	11.9

a/ Estimates for 1983 based on Data Resources, Incorporated projections for the year.

Calculated by CRS, using as source: U.S. Dept. of Defense. Office of the Secretary of Defense. Defense Economic Impact Modeling System. Washington, 1983.

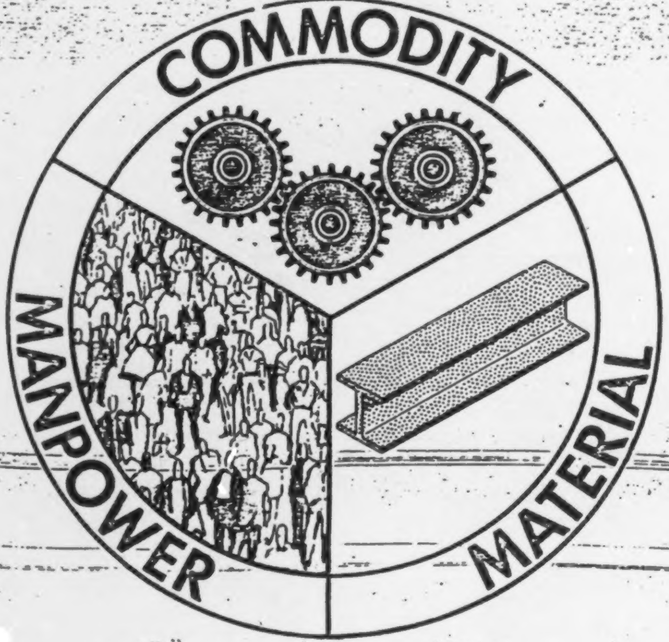
Defense Department study related to the steel sector are appended to this memorandum.

The estimates prepared by DRI take into account the direct and indirect requirements for steel for defense. That is, they reflect not only the steel inputs to goods procured for defense, but also the steel required to produce these goods.

We would caution you that the DRI estimates for 1983 were prepared in June 1983, and are, therefore, projections for the full year. Also, while DRI estimates imports of steel for defense production, there are no public data on subcontracts for steel purchases by prime suppliers of defense equipment to verify that the estimated imports of steel were in fact imported.

I trust that this information is responsive to your needs. If you have additional questions, please call me at 287-7740.

DEFENSE ECONOMIC IMPACT MODELING SYSTEM


COMMODITY
MANPOWER
MATERIAL

DEIMS

A New Concept in Economic Forecasting for Defense Expenditures

OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

JULY 1983

8/23/83

213. BLAST FURNACES & STEEL MILLS
DEFENSE ECONOMIC IMPACT MODELING SYSTEM
IMPACTS OF DEFENSE EXPENDITURES ON INDUSTRY OUTPUT
DETAILED INDUSTRY REPORT
(MILLIONS OF 1982 DOLLARS EXCEPT AS NOTED)

	1981	1982	1983	1984	1985	1986	1987	1988	AVG. ANN. % GROWTH 83 TO 88
TOTAL DOMESTIC PRODUCTION	68177	48270	55602	61761	66210	68909	71144	72878	5.56
PRODUCTION FOR DEFENSE	3825	3294	4801	5405	6132	6683	7054	7342	8.87
PRODUCTION FOR DEFENSE BY MAJOR BUDGET CATEGORY									
MILITARY PERSONNEL	60	46	54	57	58	58	58	58	1.55
OPERATION & MAINTENANCE	1213	1100	1441	1544	1636	1714	1769	1818	4.75
PROCUREMENT	1963	1653	2609	2995	3527	3945	4258	4475	11.40
AIRCRAFT	525	439	658	769	927	1048	1050	1027	9.29
MISSILES	214	179	278	324	403	478	535	578	15.75
WEAPONS & TRACKED VEHICLES	264	251	264	292	307	323	338	345	5.50
SHIPS & CONVERSIONS	440	338	562	613	725	723	784	819	7.81
AMMUNITION	124	103	217	231	260	315	368	415	13.90
OTHER	396	345	629	766	904	1058	1183	1291	15.46
RESEARCH & DEVELOPMENT	455	378	522	618	679	677	648	645	4.33
MILITARY CONSTRUCTION	134	117	181	197	240	296	328	353	14.27
PRODUCTION FOR DEFENSE BY SUPPLYING INDUSTRY GROUP									
MISSILES	68	57	87	100	115	125	129	133	8.95
AMMUNITION	255	222	493	556	626	723	817	906	12.96
TANKS & TANK COMPONENTS	29	28	72	80	84	89	92	94	5.56
OTHER ORDNANCE	52	45	74	84	96	103	107	110	8.10
COMMUNICATIONS EQUIPMENT	380	336	533	618	717	790	826	858	9.98
OTHER ELECTRONIC EQUIPMENT	150	135	336	399	469	519	548	574	11.28
MOTOR VEHICLES	220	197	244	284	318	350	372	387	9.71
AIRCRAFT & PARTS	320	268	391	448	518	572	575	569	7.81
AIRCRAFT ENGINES & PARTS	221	190	252	283	323	354	361	362	7.55
SHIPBUILDING	761	607	971	1062	1192	1219	1280	1322	6.37
ALL OTHER	1367	1208	1349	1493	1675	1841	1947	2026	8.48
PRODUCTION FOR DEFENSE PROCUREMENT AND RDT&E BY ARMED SERVICE BRANCH									
ARMY	633	571	803	921	1038	1176	1278	1357	11.08
NAVY & MARINES	1041	830	1317	1482	1725	1842	1973	2054	9.29
AIR FORCE	706	595	960	1143	1363	1516	1561	1609	10.90
PRODUCTION FOR FOREIGN MILITARY SALES	400	305	859	735	691	641	588	581	-7.54

6/16/83

213. BLAST FURNACES & STEEL MILLS

DEFENSE ECONOMIC IMPACT MODELING SYSTEM
FORECAST OF THE IMPACTS OF DEFENSE EXPENDITURES ON INDUSTRY OUTPUT
(MILLIONS OF 1982 DOLLARS EXCEPT AS NOTED)

	1981	1982	1983	1984	1985	1986	1987	1988	AVG. ANN. % GROWTH 83 TO 88
TOTAL FINAL DEMAND	-6,819	-5,358	-5,919	-4,801	-4,705	-5,157	-5,452	-5,833	0.33
PERSONAL CONSUMPTION	2	2	1	1	1	1	1	1	-1.81
GROSS PRIVATE INVESTMENT	1,127	-1,899	-320	1,199	1,644	1,617	1,638	1,610	NM
TOTAL IMPORTS (-)	10,680	7,394	7,298	7,799	8,250	8,741	9,103	9,490	5.39
DEFENSE IMPORTS (-)	624	544	648	701	784	870	926	980	8.64
EXPORTS	2,703	3,488	1,512	1,597	1,688	1,742	1,776	1,811	3.68
FOREIGN MILITARY SALES	0	0	40	35	33	30	28	28	-6.91
FEDERAL GOVERNMENT	220	432	179	194	204	217	229	238	5.82
DEFENSE	211	418	172	186	197	209	221	230	6.02
NONDEFENSE	9	14	7	7	7	7	7	7	0.40
STATE & LOCAL GOVERNMENT	8	13	7	7	7	7	8	8	2.08
		(74.577)	(85.905)	(95.431)	(102.294)	(106.464)	(109.417)	(112.600)	
TOTAL PRODUCTION	68,177	48,270	55,602	61,761	66,210	68,909	71,144	72,878	5.56
DEFENSE	3,825	3,294	4,801	5,405	6,132	6,683	7,054	7,342	8.87
FOREIGN MILITARY SALES	400	305	859	735	691	641	588	581	-7.54
ALL OTHER	63,952	44,670	49,942	55,621	59,386	61,585	63,502	64,955	5.40
DEFENSE SHARE OF TOTAL PRODUCTION (%)	5.61	6.82	8.63	8.75	9.26	9.70	9.92	10.07	3.13
Production for Defense (millions of short tons of raw steel equivalent) →		(5.086)	(7.413)	(8.349)	(9.472)	(10.327)	(10.903)	(11.388)	
TOTAL PRODUCTION (% CHANGE)	--	-29.20	15.19	11.08	7.20	4.08	3.24	2.44	--
DEFENSE (% CHANGE)	--	-13.88	45.74	12.60	13.45	8.98	5.56	4.08	--
ALL OTHER (% CHANGE)	--	-30.15	11.80	11.37	6.77	3.70	3.11	2.29	--
DEFENSE TOTAL REQUIREMENTS	4,449	3,838	5,448	6,106	6,916	7,552	7,960	8,322	8.84
DEFENSE IMPORT SHARE (%)	14.02	14.17	11.89	11.47	11.34	11.51	11.60	11.78	-0.18
TOTAL EMPLOYMENT (1000'S)	434	321	375	392	405	407	409	407	1.65
DEFENSE	24	22	32	34	38	39	41	41	4.84
FOREIGN MILITARY SALES	3	2	6	5	4	4	3	3	-10.96
ALL OTHER	407	297	337	353	363	364	365	363	1.50
PRODUCTIVITY ($1000/PERSON)	59	56	55	59	61	63	65	67	3.84

millions of short tons

DEIMS0583

82 raw steel production: 74,577 (thousand short tons)

avg. price per short ton of raw steel in 1982: $647.25

CHARLES E. BENNETT, FLA.
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BILL NICHOLS, ALA.
DAN DANIEL, VA.
G. V. (SONNY) MONTGOMERY, MISS.
LES ASPIN, WIS.
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C. ROBIN BRITT, N.C.
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U.S. House of Representatives
COMMITTEE ON ARMED SERVICES
Washington, D.C. 20515
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G. KIM WINCUP, STAFF DIRECTOR

April 30, 1984

NOTE TO: Honorable Elwood Hillis

FROM : David Price

You asked that we provide you with data on foreign use of steel by the Department of Defense.

Tabulated below are the most reliable data available on foreign steel used by Defense. The data was provided by David Cantor, Congressional Research Service (287-7740). His data is from a July 1983 study entitled "Defense Economic Impact Modeling System". That study was prepared for OSD by Data Resources, Inc.

Year	Tons	Percent of DOD Consumption	Percent of U.S. Consumption
1981	1,162,000	14.0 percent	5.84 percent
1982	1,226,000	14.2 percent	7.4 percent
1983 (estimate)	1,516,000	11.9 percent	8.9 percent

Averages out to 7.3 percent of total U.S. imports of steel for 1981-1983.

DP:pc

David Price

DEFENSE LOGISTICS AGENCY

30 April 1984

MEMO FOR Dick Jones
Office of C/M Hillis

Enclosed is the information you requested today on procurements of Supply Class 9515, Plate, Sheet, Strip & Foil, Iron and Steel. A summary and listing of all awards for Fiscal Year 1983 is at the enclosure. It shows that a total of $21,374,869 was awarded in Fiscal Year 1983 with $9,154,886 of that amount being awarded to domestic dealers offering steel produced in five different countries, all with Memorandum of Understanding agreements with the United States. The reason that these procurements were made from foreign sources is that, in each case, they represented the lowest offer.

A similar listing was not produced for Fiscal Year 1982 because of the extensive manual effort in extracting this type of information.

Enclosure 2 more precisely defines the items and dollar value of each award. I hope this information will be helpful to you.

Nancy J. Broderick

2 Encls

NANCY J. BRODERICK
Congressional Affairs
Specialist

FISCAL YEAR 1983 PROCUREMENTS - FEDERAL SUPPLY CLASS 9515

Domestic (Over $25,000)		$ 6,937,357
Domestic (Set-aside Small Business under $25,000)		5,282,626
	DOMESTIC TOTAL	$12,219,983
Foreign (Over 25,000)		
Belgium		$ 4,016,228
Germany		2,310,222
United Kingdom		1,935,738
Canada		654,772
Australia		237,926
	FOREIGN TOTAL	$ 9,154,886
	FSC 9515 TOTAL	$21,374,869

NOTE: All awards for foreign produced materiel were made to domestic dealers offering foreign products except for three direct awards to Canadian Commercial totalling $146,617.

The sources of the foreign materiel are all nations having Memorandum of Understanding with the Government of the United States.

DISC FSC 9515 LARGE PURCHASES FY 83

COUNTRY*****	ITEM NAME****	AWARDNR	CONTRACTOR**	DOLLARS
* COUNTRY	domestic			
domestic	mtl plt	83c3633	phoenix stl	33061
domestic	mtl plt	83c3846	lukens stl	33459
domestic	sht stl	83c3519	jones & laug	33574
domestic	mtl plt	83c0484	lukens stl	33984
domestic	stl sht	83c3998	east stainle	34715
domestic	mtl plt	83d0011	glazer stl	34725
domestic	metal pm	83d0011	glazer steel	34725
domestic	stl sht	83d0053	washing stl	34727
domestic	metal pl	83d0103	east stainle	360926
domestic	mtl pl	83c4185	lukens stl	36354
domestic	metal pl	83c3832	lukens stl	36361
domestic	str steel	83c0985	a g steel	36668
domestic	metal pl	83c0165	engineer mtl	37882
domestic	stl sht	83c0545	amer spec mt	38215
domestic	stl sht	83d0052	stainl plate	38799
domestic	metal pm	82d0073	inland stl	39299
domestic	metal pl	83c0551	east stainle	41036
domestic	mtl plt	83c0198	east stainle	41397
domestic	stl sht	83c0424	glazer stl	41072
domestic	stl sht	83c0947	dover brake	42022
domestic	stl sht	83c3871	roberts stl	42152
domestic	stl sht	83c4146	glazer stl	42171
domestic	mtl plt	83c3534	lukens stl	43739
domestic	stl sht	83c0585	dist intern	44220
domestic	mtl plt	83c0177	phoenix stl	45018
domestic	stl sht	83c4091	roberts stl	46604
domestic	mtl plt	82d0096	east stainle	47130
domestic	stl sht	83c4088	certified pr	47948
domestic	mtl plt	82d0089	glazer stl	48520
domestic	stl sht	83d0052	stainless pl	48757
domestic	stl sht	83d0032	stainless pl	51282
domestic	metal pm	83c4137	lukens stl	51963
domestic	sheet stl	82d0028	kaiser stl	52615
domestic	mtl plt	83c3623	jessop stl	54972
domestic	metal pl	83c0144	mika stl fab	55327
domestic	plate mtl	83c3750	amer spec me	55791
domestic	mtl plt	83c0127	lukens stl	57605
domestic	mtl plt	83c0178	phoenix stl	59762
domestic	mtl plt	83c0139	phoenix stl	60709
domestic	metal pm	83c3812	east stainle	61166
domestic	metal pm	83c4252	lukens stl	63131
domestic	metal pl	83c0998	mika stl fab	63833
domestic	mtl plt	82d0029	phoenix stl	64890
domestic	stl sht	83d0052	stainles plt	65009
domestic	metal pl	82c3297	u s steel	65139
domestic	mtl plt	83d0011	glazer stl	67413
domestic	metal pm	82d0086	east stainle	69069
domestic	stl sht	83c0995	dist interna	71761

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                            DISC FSC 9515 LARGE PURCHASES FY 83

COUNTRY*****      ITEM       AWARDNR CONTRACTOR** DOLLARS
                NAME****

* COUNTRY  domestic
 domestic      stl sht        83c3805 east stainle    72051
 domestic      stl sht        83d0056 stainles plt    73212
 domestic      stl sht        83d0052 stainles plt    73451
 domestic      stl sht        83d0052 stainles plt    74586
 domestic      metal pm       83d0011 glazer stl      77846
 domestic      stl sht        83d0052 stainles plt    80318
** SUBTOTAL **
                                                    6937357


* COUNTRY australia
australia      mtl pm         82d0088 r h pines       31853
australia      mtl plt        82c5829 r h pines       44069
australia      metal pm       83d0017 r h pines       80928
australia      metal pm       83d0017 r h pines       81076
** SUBTOTAL **
                                                     237926


* COUNTRY belgium
belgium        mtl plate      83c4179 brussels ste   100162
belgium        metal plt      83d0081 pines steel    101113
belgium        mtl plate      83c3613 r h pines      109140
belgium        mtl plt        83c0174 brussels stl   113908
belgium        metal pl       83c3518 brussels stl   130192
belgium        metal plt      82d0027 r h pines      134261
belgium        metal pl       83c0997 brussels stl   138169
belgium        stl sht        82d0025 r h pines      216403
belgium        mtl plate      83c0142 brussels stl    25330
belgium        mtl plt        83c3558 r h pines       25480
belgium        metal pm       83c3971 brussels stl    25659
belgium        mtl plate      83c0135 r h pines       25918
belgium        metal pm       83d0087 brussels stl    25927
belgium        mtl plate      83c3890 r h pines       26668
belgium        mtl plate      83c4210 brussels stl    26709
belgium        metal pl       83c3958 r h pines       27492
belgium        metal pm       83c4136 r h pines       28446
belgium        mtl plate      83c3798 brussels stl    28674
belgium        metal pl       83c3926 r h pines       29181
belgium        mtl plt        83c3632 r h pines       29333
belgium        mtl plt        83c3517 brussels stl    29675
belgium        metal pm       83c4129 brussels stl    29767
belgium        metal pm       83c3948 brussels stl    29854
belgium        mtl plt        83c3534 a g steel       30641
belgium        metal pm       83c4126 r h pines       31410
belgium        metal pl       83c3843 brussels stl    31982
belgium        metal pl       83c3819 brussels stl    32157
belgium        metal pm       83c3828 brussels stl    32370
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                              DISC FSC 9515 LARGE PURCHASES FY 83

COUNTRY*****      ITEM       AWARDNR CONTRACTOR** DOLLARS
                NAME***.

* COUNTRY belgium
belgium        mtl plt        83c0124 precision co   34408
belgium        mtl plt        83c4198 brussels stl   34642
belgium        metal pl       83c4029 brussels stl   34923
belgium        mtl plt        83c3765 r h pines      35701
belgium        metal pm       83c4075 r h pines      35929
belgium        metal pm       83d0018 brussels stl   39022
belgium        metal pl       83c0461 brussels stl   40308
belgium        mtl plt        83c0180 brussels stl   41511
belgium        mtl plt        83c3854 r h pines      41700
belgium        metal pm       83d0018 brussels stl   41983
belgium        metal pm       83d0082 brussels stl   42734
belgium        metal pm       83c3906 r h pines      43274
belgium        mtl plt        83c3504 brussels stl   43643
belgium        metal pm       83d0094 r h pines      45129
belgium        metal pl       83c0444 precision co   45373
belgium        mtl plt        83c4108 brussels stl   46720
belgium        plate mtl      83c4102 r h pines      47413
belgium        mtl plt        83c0723 precision co   49426
belgium        mtl plt        83c3780 brussels stl   51376
belgium        metal pl       83c4021 brussels stl   52131
belgium        mtl plt        83c0474 brussels stl   54929
belgium        metal pm       83d0087 brussels stl   58591
belgium        mtl plt        83c0496 brussels stl   58881
belgium        stl sht        82d0025 r h pines     641567
belgium        mtl plt        82d0088 r h pines      64505
belgium        mtl plt        83c0187 r h pines      64576
belgium        metal pm       83d0087 brussels stl   65123
belgium        stl sht        83d0057 r h pines      70754
belgium        stl sht        82d0025 r h pines      70787
belgium        metal pm       83c3770 brussels stl   74794
belgium        metal pm       83d0018 brussels stl   77022
belgium        stl sht        82d0025 r h pines      77774
belgium        metal pm       83d0081 r h pines      83836
belgium        metal pm       83c4259 r h pines      89572
** SUBTOTAL **
                                                    4016228

* COUNTRY canada
canada         mtl plt        82d0027 r h pines     155151
canada         mtl plate      82d0027 r h pines     243655
canada         stl sheet      83d0035 canadian com   26743
canada         mtl plt        82d0027 r h pines      51847
canada         stl sht        82d0043 r h pines      57502
canada         stl sht        83d0035 canadian com   58670
canada         stl sht        83c0019 canadian com   61004
** SUBTOTAL **
                                                     654772
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                           DISC FSC 9515 LARGE PURCHASES FY 83

COUNTRY*****     ITEM      AWARDNR CONTRACTOR** DOLLARS
               NAME****

* COUNTRY germany
germany        stl sheet   82d0041 r h pines     105888
germany        stl sheet   83d0037 brussels stl  110033
germany        mtl plt     83c3973 western stl   112662
germany        stl sheet   82d0041 r h pines     145414
germany        stl sheet   82d0041 r h pines     168167
germany        metal pl    83c3550 artco indus   200735
germany        metal       83c4027 brussels stl   25449
germany        stl sht     83c3938 r h pines      25596
germany        stl sheet   83c3719 brussels stl   25792
germany        mtl plate   83c3803 r h pines      26674
germany        stl sht     83d0057 r h pines      27174
germany        stl sht     83d0058 brussels stl   28750
germany        mtl plt     83c3645 a g steel      29372
germany        stl sht     83d0037 brussels stl   29702
germany        mtl plate   82c5949 a q steel      30425
germany        mtl plt     82d0088 r h pines      33323
germany        stl sht     82d0043 r h pines      33627
germany        mtl plt     83c0916 a q steel      35097
germany        stl sht     83d0058 brussels stl   35204
germany        stl sht     82d0043 r h pines      35328
germany        mtl plt     83c3659 mika stl fab   36157
germany        stl sht     82d0041 r h pines      37411
germany        stl sht     83d0037 brussels stl   49543
germany        mtl plt     83c3620 mika stl fab   50370
germany        mtl plt     82d0088 r h pines      53851
germany        stl sht     83d0057 r h pines      57689
germany        stl sht     83d0057 r h pines      64855
germany        stl sht     82d0043 r h pines      72059
germany        stl sht     83d0037 brussels stl   81238
germany        stl sht     83d0037 brussels stl   81961
germany        stl sht     83d0057 r h pines      83109
germany        stl sht     83d0037 brussels stl   90012
germany        stl sht     82d0041 r h pines      90108
germany        metal pm    83d0017 r h pines      97982
germany        stl sht     83d0037 brussels stl   99010
** SUBTOTAL **
                                                 2310222

* [illegible]
un kingdom    mtl plate    82d0083 glazer stl    [illegible]
un kingdom    metal pm     82d0083 glazer stl    114222
un kingdom    mtl plt      82d0083 glazer stl    119834
un kingdom    mtl plt      82d0083 glazer stl    124036
un kingdom    mtl plate    82d0083 glazer steel  131836
un kingdom    metal pm     82d0083 glazer stl    171849
un kingdom    metal pl     82d0083 glazer stl    206781
un kingdom    mtl plat     82d0083 glazer steel  281905
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                    DISC FSC 9515 LARGE PURCHASES FY 83

COUNTRY*****      ITEM      AWARDNR CONTRACTOR** DOLLARS
                NAME****

* COUNTRY un kingdom
un kingdom   metal pl     82d0083 glazer stl      39016
un kingdom   mtl plt      82d0083 glazer stl      54591
un kingdom   mtl plt      82d0083 glazer stl      55484
un kingdom   metal pl     82d0083 glazer stl      56666
un kingdom   mtl plt      82d0083 glazer stl      56746
un kingdom   metal pm     82d0083 glazer stl      60170
un kingdom   mtl plt      82d0083 glazer stl      69742
un kingdom   mtl plt      82d0083 glazer stl      90933
un kingdom   mtl plt      82d0083 glazer stl      95868
un kingdom   mtl plt      82d0083 glazer stl      98046
** SUBTOTAL **
                                                1935738

** TOTAL **
                                               16092243
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Mr. HILLIS. When you look at conventional forces, we are trying to build the M-1 tank at 80 or 90 a month, and that is fabricated from plate steel. We don't cast the hulls. We have a new process. It is a very important vehicle and it is going in high numbers to Europe, and it helps morale, helps our whole defense effort there. That is only one of many.

The naval program I mentioned, 600 ships, they are tremendous consumers of steel. Downstream as we give up capacity, we will find ourselves making choices truly between consumer products and defense products, and in a peacetime economy I suspect that consumer products in our society will take a higher level.

Mr. PEASE. Thank you very much.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

I, too, would like to thank my colleagues for very interesting and information-packed testimony.

I would characterize the behavior of our domestic steel industry as one of utmost restraint over the years. They have tried to utilize the laws that were on the books to maintain their fair share of our markets. They have tried to stay competitive. They have modernized; they have rationalized; they have cut the fat, cut overhead, cut blue collar workers, cut white collar workers. There are a little less than 300,000 fewer people employed in the industry than there were 14 years ago or so—13 or 14 years ago.

I think the steel industry has made a great effort to be competitive and to compete in this worldwide market. Your testimony has brought out this fact as well as the difficulty of competing even with all of these extreme efforts.

I think it was Mr. Hillis that pointed out the modernization of the plant and still the underutilization of capacity of that most modern plant in the country. That leads me to my question to you, and perhaps to Mr. Hillis specifically; that we hear a lot today that this is a basic industry versus high-tech matter.

In this modern plant built close to your district, Mr. Hillis, wasn't that increase in efficiency and capacity due to high tech? Isn't our steel industry today one of the largest utilizers of our high-tech advancements and increases in productivity and efficiency? Aren't the two interrelated? Is it important that we keep our industrial base if we are going to make advances in high tech?

Mr. HILLIS. Oh, that is a very accurate statement. It is very true that in the continuance casting process and the rolling mills, they are all computer driven; they have the latest in scientific controls, not only in operation of the mills but in sampling of the materials just as it is poured. And it is a very high interrelation between so-called high tech and basic industry today. If it weren't for that, we wouldn't be as competitive as we are. And we are trying to do that here, to modernize even more fully.

Mr. SCHULZE. Our choice is not high tech versus basic industry.

Mr. HILLIS. No.

I would like to yield to Mr. Gaydos.

Mr. GAYDOS. If I may, I have information that the steel industry today, presently, is utilizing 70 percent of the high tech that is available in the country today.

Mr. SCHULZE. Seventy percent of the high tech.

Mr. GAYDOS. Seventy percent is in the steel industry.

Mr. SCHULZE. That is amazing.

So what we are saying is that if we phase out our steel industry, we are phasing out the market for the high-tech producers.

Mr. GAYDOS. That is right.

Mr. SCHULZE. I know your time is valuable and you are busy, but I have a couple questions I would like you to answer.

Why is it that at every turn we hear if this type of legislation is passed, all around the world we are going to have retaliatory action, retaliatory action—everybody starts quaking and shaking, and, my God, we are going to have retaliatory action against us?

I think that is baloney. I think we are the largest market in the world, and anybody that will retaliate will hurt themselves more than it does us.

I would like to have your response when somebody says to you, "What about this retaliatory action?"

Mr. GAYDOS. I have a tendency to agree with my colleague from Pennsylvania, and I would like to go further and state that in the international trade agreements, GATT, as we know it, there are provisions therein that if they were followed by various administrations—I don't want to put the finger on one or the other; I am talking about a series of our administrations, both Democratic and Republican—that if some of those procedures, legal remedies, enforcements—and if there were a will to enforce the act as written—we would not be sitting here today.

Other countries have done it. When we reluctantly did it in some administrations—I don't want to get into names of their party persuasions because there are examples on both sides—when the will and desire was there to use those remedies, existing remedies, we had fantastic results and we had practical relief.

Let me give you some examples. I mentioned it before you had come. Specialty steel—they got a break some years back—I won't mention under which administration——

Mr. SCHULZE. We both know, because you and I met with President Ford in the Cabinet Room and discussed the issue.

Mr. GAYDOS. That is exactly right.

As a result, specialty steel got a break. They were committed verbally and on paper with that administration. And getting this break the quotas would be on, if they made money they would modernize the specialty steel industry in this country, and that is what they do.

Today—it is not open to debate—today it is the most modern industry of its kind in the world. Nobody can say you are decrepit; nobody can say you are not using high tech. It is there. It is there. That is a good example.

If we had a will and desire to enforce it and give them a break—and we hope this is our desire—we hope this bill, this 5 years, is all it does—5-year concept, if it were put into play, we feel that that would result. We would get breathing room; our industry would be committed—just like in specialty steel—to put profits back in and get high tech going, modernize, be competitive, and we think it would solve the problem. Then we would go back to what all of us desire today under this laissez-faire type of government. We would have free enterprise and let the market competitiveness then work.

I have that fervent desire—I know this committee does. And I think this is just a temporary respite, just a little bit of salve on the wound. And if we passed this, I would hope that to be the result.

Mr. SCHULZE. Isn't it true that in general the steel markets around the world have been fairly orderly—and I don't want to put the blame on any one segment, but that the so-called Third World markets seeing this have taken the decided advantage of it and are unleashing a flood of exports or imports to our country that have really played a major role in bringing about this action?

We were heading in the right direction. We were getting some worldwide agreement on capacity utilization that could help share the production facilities around the world and share the largess, say, of the steel consumers of the world. But a few who didn't want to be involved in constraints have sort of blown that out of the water, and we are then forced to this type of action.

Is that true?

Mr. GAYDOS. I would respond to my good friend in this way: The mysterious machinations of international trade and all it encompasses, in the past and in the future, oh, the grave mystery, all those things are used, and what happens—after applied and traded and put into place and overlooked, then negotiated—what happens in the end result is that the GATT agreement doesn't work and that there are some countries that can take advantage of others.

I share the sensitivity of my colleague in that particular area. I don't profess to know the answer. Maybe Mr. Hillis may know the answer, but I wouldn't dare gamble at suggesting an answer.

But that does happen in Third World countries, and how and why and who is paying whose debts and how long they will be doing it, I would be the last to know.

Mr. Hillis may have a more practical response to that.

Mr. HILLIS. On a slightly different point—but still on the subject—there was an article approximately 2 weeks ago in the Wall Street Journal, as I recall, and I would like to get that and submit it for the record because it is very important on this point.

It was a review of the development of the steel industry in South Korea. The article was that—"Is it a Tiger or Puppy," I believe was the title of the article. It dealt with the outlook of Japan towards a neighbor in their area in production of steel at an even cheaper price than what it could be produced in Japan, and what it would do to the local Japanese economy if they didn't put up some sort of protection or deal with it in a quota system or something.

I would like to submit it because it shows, I think, the complexion of the problem worldwide. It isn't all here, but it is because of a world overcapacity is leading to a problem of how do you consume all this steel.

We are getting by far and away the brunt of it under the so-called GATT agreement.

Mr. SCHULZE. Isn't it true while our domestic capacity has been declining, the worldwide capacity has just continued to go off the charts, well over 1 billion——

Mr. Hillis. Increase; yes. It is not a matter of free trade, as Ralph Regula says; it is fair trade. That is why it is so difficult from your side—how do you devise a policy that is fair for us to give our industry a chance and, at the same time, not provoke retaliation worldwide.

Mr. Gaydos. If I may, Formosa put 3 million ton capacity on line a year and a half ago. They are planning another five. I don't know who they will sell it to, but it seems like that seems to be the desire of all developing or emerging nations who use steel at the main crux of how they pick themselves up by their steel body straps.

Father Hogan from Fordham University—I think the Chairman is familiar with him—in many cases, he had predictions 10 years ago there would be a worldwide shortage of steel. Here we have a glut. Not that he wasn't accurate. Things changed. He is one of the most informed gentlemen on the subject. But here a lot of these elements have not come about.

The changes have occurred and we have these peculiar and mysterious circumstances where all these nations are increasing capacity. Much of it is with our money. In Korea, for example—I think my colleague from Pennsylvania joined me in the letter—we complained bitterly about the international lending institutes making money available for new expansion up in Korea, without going into details, and they did curtail participation somewhat in that. But they went ahead; they are still on. The project is on. And it will bring on line more steel production in a year and a half.

Mr. Schulze. Gentlemen, a tonic which is near and dear to the collective hearts of this committee and our chairman is, as we look downstream we see a potential for $100 billion trade deficit.

How would this measure tie in with our concerns over that $100 billion trade deficit?

Mr. Gaydos. Maybe Mr. Hillis would like to comment. But I would make one comment. I would like to bring this to my colleagues' attention. This is the first time—I checked this out, and it is—the first time that the chairman, Mr. Volcker, has ever brought up trade as a factor in the complicated formula we are talking about as far as projections, inflation, and so on. This is the first time we talked about deficit. And he said it unqualifiedly and emphatically—he said when you have a trade imbalance such as we have, we have problems and it is going to affect inflation and other things.

I would say that if such an expert in the field, long-time expert as he, if he recognizes this, I think it is so significant, and I would think it has much implications.

Mr. Hillis. I can't add to what my colleague has said other than I think that the legislation, by setting quotas, would help restrain the trade deficit; in other words, imports coming into the country.

Mr. Schulze. I thank you, gentlemen.

Thank you, Mr. Chairman.

Chairman Gibbons. Mr. Downey.

Mr. Downey. Thank you, Mr. Chairman.

I want to also thank our colleagues for their testimony. I am going to be asking some questions of Mr. Roderick and others about this, who will be testifying later.

I am inclined to be supportive of your position, but I think that there are a couple questions, frankly, that we will be able to answer for our colleagues if we are going to see this legislation work its way out of this subcommittee and into the full committee.

I just want to read to you what Rudy Penner has said from the Congressional Budget Office. You don't have to answer now but think about it because it is a question that is going to be on people's minds. He says that when analyzing the impact of the quota on the economy, he said most importantly perhaps the quota will not generate sufficient revenues to increase investment to the levels the industry claims are needed to restore its competitiveness.

Indeed, it is doubtful that any feasible import restrictions could by themselves reverse the industry decline. As a result, the quota alone will not obviate either the need for further restructuring in the industry or demands for further trade relief once the quotas terminate.

So it seems to me if you have a shorthand answer to that question, I would like to hear it now. If not, it is something that is going to have to be addressed, because if we take the unusual route of going to the quotas and provide industry the breathing space I believe they need, we are going to have to convince Members of Congress of the fact that they are going to work.

Mr. GAYDOS. I would like to say, I think it is a fair question and I think it is an important one, as my colleague points out. I just have to say that if we had no examples, I would be very worried. But we have examples which would belie that determination or conclusion by the gentleman you mentioned.

The example is, No. 1—and I have to mention it—during the Nixon administration, using remedies existing in the international agreements, he put a 10-percent surtax on automobiles coming into the country. It was, in effect, in place 1½ years, and he took them off. But that in itself, as a result, gave new life to the automobile industry, admittedly, saving them supposedly, and postponed for 10 years the ultimate crash of the automobile industry.

Another good example which I mentioned was the specialty steel. That is such a clear example.

Mr. DOWNEY. Yes.

Mr. GAYDOS. The respite they had, the 4-year quota, they committed at the White House to take that profit and put it back into the industry and modernize. That was when Solomon and the others were down there. During that administration, my colleague spent a lot of time at the White House. But they fulfilled their commitment and put that money back into the specialty steel industry, with the most modern facilities in the world. Nobody can compete with them—or they are just as competitive. And the use of the respite or quotas or limitations allowed industry to get on its feet.

As I say, Allegheny Ludlum, every employee is called back and, in fact, they are hiring. So I say we have good stirring examples as to the fact it can work. If we had kept it on too long and our industry became flabby and noncompetitive, then I can see where Government intervention would mean we don't have laissez-faire any more, and it would ruin what we all believe in, which is the marketplace to govern prices.

There are a few more examples that we have.

Mr. Downey. Would you add anything to that?

Mr. Hillis. I can't add to that.

I think the intent of the legislation is not to have a permanent barrier and promote inefficiencies and to promote noncompetitiveness between domestic versus foreign sources; it is aimed at trying to give the domestic industry a chance to become truly competitive, phase out quotas and let them go it alone.

And, as I said to Mr. Pease earlier, I talked about nationalization some day. Maybe that is a little strong. But I can see coming to Congress to ask for guarantees or Government loans. We ought to do this first before we look at those routes.

Mr. Downey. I have no further questions. Thank you.

Chairman Gibbons. Thank you.

I will be brief because we have to move on to other witnesses.

There are some things you don't have to convince me of. I know we have a sick industry here. I know there have been abuses in the past in dumping and subsidizing. I don't want any dumping or any subsidy to injure any American industry, and I will break my back to make sure that doesn't happen and to keep down the cost of the repetitive nature of expenses in that area.

I think another thing that we have to look at as we start these hearings is that whatever we do will set some precedent. We have a number of industries that are pressing us in the same area, and of course the textiles industry already has worldwide quotas. We also have the shoe industry pressing us on this. I can't think of a major American industry coming in and not asking for some kind of help one way or another.

We have all been through a terrible recession. Fortunately, the American economy in most areas has been recovering faster than the world economy. We still have huge national deficits in our budget that are badly distorting the ability of Americans to compete.

They certainly cannot compete in the export area. The overvalued dollar, primarily brought about by our fouled up financial policy, has brought about a fouled up monetary policy, which has brought about high interest rates, which has brought about an overvalued dollar. It just makes it impossible for us to compete.

So we have a sick steel industry. We have a very bad competitive situation. We have had a lot of abuses in the past.

The GATT is not a very effective agreement, but unfortunately it is the only agreement we have and we should be trying to improve it wherever we can.

One of the things that as chairman of this subcommittee bothers me is that we have legislation here proposed by you gentlemen and quite a few other cosponsors which is seeking import relief. If we grant import relief under the GATT we are required to provide compensation, or we are held open for retaliation.

We could argue about how big the retaliation might be, but there is retaliation going on now because of the specialty steel quotas that we are currently operating under.

So I don't think retaliation is academic; it is a real problem. We have this legislation here that, being outside of GATT, will require retaliation or allow retaliation. We also have an action, pending that, if it is decided affirmatively, will not provoke our trading partners to retaliate. In that regard, I am referring to the 201 case presently pending before the International Trade Commission.

So my first question is, why, while that case is still pending and before any action has yet been taken, should the Congress further expose other industries in the United States to possible retaliation, until there is some decision by the ITC in the 201 case that Bethlehem and the United Steelworkers union filed?

Should we move with this legislation prior to the resolving of that case, is my first question.

Mr. GAYDOS. I would say, Mr. Chairman, if I may respond, if we don't move in the light and in the face of statistics and the ever-increasing deficits and the loss of world markets on a permanent basis, if we don't move, that might be the worst part of the two-phased predicament that we have. We have statistics indicating that by the trade deficits, indicating that we have to do something.

I share the concern of the committee chairman. I know the sensitivity you have. I know of the Christmas tree effect involving shoes, television sets and so on, but I humbly submit to the chairman—and we feel that this is the least bitter method for want of a descriptive term that we can come up with. Some action has to be taken because, one, our negotiators are either unable or unwilling to make changes on the part of so many countries.

For instance, a practical example, Brazil; they have the likes, similarities, anything that comes into Brazil that they make in Brazil, similar to it, they don't allow it in. Everybody has violated from A to Z the terms of the existing international trade agreements, GATT as we know it. They are not abiding by it.

Maybe, hopefully, if we did pass this, maybe that would shock them into reality and say, let's take the good thing and abide by it.

I submit, Mr. Chairman, that this might be methods that might appear on its face to be bitter but I submit with all sincerity it is just like the 10-percent surtax on automobiles, whether it was right or wrong that solved the problem. The threat of one didn't occur. Something was done. The strength of a committed administration manifested itself in that action.

I feel if we do something, we can always undo it; if it proves to be wrong, we can take the legislation off the books. It may prove to be a panacea, I don't know. It may prove unworkable but we have to do something under these trying circumstances.

I admit this to the chairman in public. I would have great hesitancy to be sitting on the seat that he occupies having some knowledge now of just how complicated, what ramifications, what trade-offs, are involved with just an almost unending line of products worldwide with all of the unrest worldwide, the dickering and jockeying for position, and the economic trade of this world as we know it, which is ever shrinking. I have grave sympathy with my chairman. I know it is a complicated problem.

But I submit, if I may make the case for steel, that steel for 20 years was under price controls by every administration, one that succeeded the other, de facto. Every time there was a price problem, get steel, get steel. What happened? They lost investors. Nobody invested in steel. Other corporations were making 16- or 17-percent profit; steel made 7.

So I submit the country has been somewhat unfair to this industry. So that is why I say there is some justification at this time. It is not a complete solution but some justification is there that we go to the steel problem because we have treated it so shabbily for 20 years and give them some help and then look at it.

Maybe we wouldn't have to go—my opinion, my sincere feelings are that if we did something, those other items may very easily fall in line. GATT would be respected, and this just might be the one approach we can take at this time in a timely fashion with always the thought that if we made a mistake—we don't know when we legislate whether it is bad or good—assuming we made a mistake, we can correct. We can.

I believe it is imperative that we give steel their just remedy at this time.

Chairman GIBBONS. Essentially what I am saying in my question is this: We have a remedy, a very important remedy that the steel industry—at least a portion of the steel industry—is not using, the 201 case that is presently before the ITC.

If this subcommittee makes a special exception for steel outside the regular, standard types of processes that we hold all other American industry to, don't we put ourselves as responsible legislators in a particularly tough position to fend off other industries that are in trouble and seek irregular types of relief?

That is one of the first problems that this member faces.

Mr. GAYDOS. I would say it is a problem, Mr. Chairman, but not an insurmountable one.

The steel industry is very basic. We can make justification for treating it a little specially. It has always claimed to be basic. It is the prime mover of price fluctuations, it has said. So if that is the case, I think it has a right to request and deserves separate consideration.

Repeatedly and as a matter accepted in the international community, 201 cases, Mr. Chairman—and I say this not with tongue in cheek but practically—have never been too effective. The results are not there. I think the chairman would agree with me.

They may sound good but the results have not proven to be worth the inclusion in the GATT arrangement in the first place. That is the information I have.

Chairman GIBBONS. Well, I can understand your reluctance to use these remedies. Steel, as I see it, has more or less effectively over the last 20 years been under some kind of import restraint. Everything from volunteer restraint, that began in the 1960's and 1970's to different types of quota arrangements, to trigger price mechanisms. None of that seems to have done any good.

Maybe the argument can be made that it was not effective enough. It wasn't dramatic enough. But you know, in all that time, I don't see that any progress has been made and I am a little skeptical that what you are asking me for is just a little bit more of the same thing you have been getting for 20 years.

Mr. HILLIS. Mr. Chairman, if I might respond just briefly. I think you have made a very good point.

The reason why we are here is that some of these other procedures have not been effective enough to solve the problem. There was a time, I believe in the history when this industry was an exporter of product actually, and we export nothing today. It is all coming the other way. We have tried to use dumping and 201 and various procedures of appeal and it is like a rifle shot trying to stop a charging number of elephants or something; you just can't do it.

So what I think we are seeing here is a temporary but broader remedy to deal with the problem to give us a chance to get a little breathing room, not to set a precedence as for protectionism for all time.

Chairman GIBBONS. I am not criticizing your use of statistics at all. We all use the best statistics we can find to support our cases, and I may be accused of having done exactly the opposite when I use these statistics, but I want to show you there is an arguable point here.

You keep using the percent of market share penetration as your argument about being bled to death. When I look at the quantity of total imports, however, they are remarkably the same over a 10-year period, and even going back 15 years, they have not changed a heck of a lot.

It may never happen again, but imports of steel for 1974 were about 16 million tons and imports in 1983 were still only about 17 million tons. They have gone up a little and go down a little from year to year, but they have been roughly in that area for 10 years.

What has happened, as I analyze your arguments, is that two things have occurred in the domestic industry: One, the domestic steel market has shrunk as less steel is being used; and two, minimills have entered the market. Minimills have gone from 2 percent of domestic market share to about 20 percent of domestic market share. And the steel industry as a whole has just lost market volume in the meantime.

I don't know why it lost market volume, other than by reason of substitution of products and so on, something that comes about as an economy gets more sophisticated and as prices go up. But imports have remained remarkably sustainable over that 10 years. They have gone up and down with the American economy but they have not gone up and down a heck of a lot from about 16 million tons in 1974 to about 17 million today.

Mr. GAYDOS. I am sure, Mr. Chairman, that succeeding witnesses are going to be able to respond to that because they have those statistics. I would just submit for your consideration, Mr. Chairman, an observation on my part that you have other sources of imports coming in and it is going to prove, or have been proving those figures erroneous.

When an automobile comes into the country, many, many things come in with that automobile. They are using steel products.

Chairman GIBBONS. Agreed.

Mr. GAYDOS. A lot of different factors influence that. I am sure the steel industry has a tailormade and accurate answer for you in response.

Mr. SCHULZE. If the gentleman will yield for just a second.

Chairman GIBBONS. Sure.

Mr. SCHULZE. I would interject that in 1973, we were utilizing 97 percent of our domestic capacity, and there was about 150 million tons produced, where today we are utilizing about 56 percent of capacity, and that is about 84 million tons.

The market has dropped because of smaller usages in automobiles and other areas. The market is not as large and our capacity utilization has dropped dramatically.

Thank you.

Mr. GAYDOS. We are not in economic wealth today; our economic position is very unstable. We are under extraordinary circumstances.

I am just worried, Mr. Chairman, about the permanent loss of capacity. I think you share my concern. If we shut these mills down, which we have—we shut this last 6 months, 15 million tons last year, 15 million tons of capacity—if that continues, we are going to end up really on the short end being subjected to all kinds of economic whims of our enemies and our friends internationally.

I don't know whether or not our economy will ever reach the point where things will change to where we are consuming again 150 or 140 million tons. I think it was 125 million and it was projected to be 50 million by 1990. I don't know if that will occur or not.

But one thing is certain: If we are not in the marketplace making it in this country, we are going to be losing somewhere along the line. I will let the economists argue that aspect where, militarily or otherwise.

Chairman GIBBONS. I don't want to prolong this. I would ask unanimous consent that the Chairman be allowed to put in the record at this point data supplied by the U.S. Department of Commerce to us covering statistical developments in the U.S. steel market from 1974-83.

[The information follows:]

STATISTICS AT A GLANCE
ON THE U.S. STEEL MARKET
1974 - 1983

(in thousands of tons)

Year	Apparent Consumption	Domestic Shipments	Exports	Imports	Import Market Share
1974	119,609	109,472	5,833	15,970	13.4%
1975	89,016	79,957	2,953	12,012	13.5%
1976	101,078	89,447	2,654	14,285	14.1%
1977	108,451	91,147	2,003	19,307	17.8%
1978	116,648	97,935	2,422	21,135	18.1%
1979	114,962	100,262	2,818	17,518	15.2%
1980	95,247	83,853	4,101	15,495	16.3%
1981	104,009	87,014	2,904	19,898	19.1%
1982	74,687	59,844	1,841	16,684	22.3%
1983	83,091	67,225	1,194	17,060	20.5%

IMPORTS BY SOURCE

	Japan		EEC		Canada		Other	
Year	Shipments	Market Share	Shipments	Market Share	Shipments	Market Share	Shipments	Market Share
1974	6,159	5.1%	6,424	5.4%	1,345	1.1%	2,042	1.7%
1975	5,844	6.6%	4,123	4.6%	1,009	1.1%	1,036	1.2%
1976	7,984	7.9%	3,188	3.2%	1,304	1.3%	1,809	1.8%
1977	7,820	7.2%	6,833	6.3%	1,892	1.7%	2,762	2.5%
1978	6,487	5.6%	7,463	6.4%	2,364	2.0%	4,821	4.1%
1979	6,336	5.5%	5,405	4.7%	2,354	2.0%	3,423	3.0%
1980	6,007	6.3%	3,887	4.1%	2,370	2.5%	3,231	3.4%
1981	6,220	5.9%	6,482	6.1%	2,898	2.7%	4,298	4.2%
1982	5,183	6.9%	5,646	7.6%	1,844	2.5%	4,036	5.4%
1983	4,236	5.1%	4,113	4.9%	2,379	2.9%	6,329	7.6%

Source: U.S. Department of Commerce, International Trade Administration

Chairman Gibbons. I would point out for the record that our imports have varied from as low as 12 million tons to as high as 21 million tons, but for the most part, have remained roughly in the area of 15 million tons a year, 15 to 17 million tons area during all these 10 years.

So my conclusion is, yes, as a percent of market share, imports have grown from 13.4 percent to 20.5 percent, but it is mainly because there has been a loss by the domestic industry of domestic market, not because of a tremendous growth of imports during that time.

Now, you all have worked intelligently and effectively to try to improve your legislation as you have gone along. I commend you for that. You have put a provision in there now that requires or allows the President to vacate these legislative quotas if the industry does not make an investment effort.

Our background material reflects that that is really not a big concession on the part of the industry itself, because the industry has already been meeting that threshold before these quotas are legislated and, therefore, they are not really making any additional effort.

Would you like to respond to that?

Mr. Gaydos. Again, I would submit that the industry probably has a great answer for you, Mr. Chairman, but let me give you my layman's response, if I may.

Nobody can predict as to how much is enough. I would say that if the industry is healthy and you say it is making an effort today, and that effort is carried on under the new act—assuming we put it into effect—there would be no need for it.

I would say they could continue with long-range investments.

Chairman Gibbons. Mr. Gaydos, I didn't say they were making sufficient effort; I said they were making an effort that meets the test in the bill that we are discussing.

Therefore, the bill would not require them to make any greater efforts than they are making and have been making over a number of years. Their effort is not nearly as great as the AISI says that they need to make in order to become a world class steel industry again.

Mr. Gaydos. My only response would be, Mr. Chairman, the bill if it works as we think, they would be in a position to continue to make that effort to keep modernizing and keep competitive.

Another observation might be—I don't know what industry's position is—it might be you can't get blood out of a turnip. If it is so bad you won't be able to squeeze much regardless.

There is some conjecture of how it will work. Again, I strongly suggest if we find that to be a deficit, it is not a good reason to kill the whole concept. We can correct it later on if we have to, by amendment.

Mr. Hillis. Mr. Chairman, I would just say on that point, my colleague has made excellent points in response to your question, but it could be as the hearings develop here and you hear from the industry and other parties, you may find a different formula or some way to strengthen that and help us with the legislation as well, and improve it further.

Mr. **Gaydos**. We have no pride of authorship. I beg you to recognize that.

I don't care what you do with the legislation as long as we pass it and hopefully put it into effect.

Mr. **Schulze**. Mr. Chairman, if I may.

Chairman **Gibbons**. Yes.

Mr. **Schulze**. I shared your concern over the charts and statistics and as a consequence, I wrote the American Iron and Steel Institute and I would like very much to ask unanimous consent that their response to me be placed in the record following the other charts because in their response, they say that the data package is somewhat misleading in that it does not show total imports or the impact of imports on domestic steel production.

Chairman **Gibbons**. Without objection, both of your responses and this chart will be in the record at this point. We will have the information together.

[The information follows:]

American Iron and Steel Institute
1000 16th Street, N.W., Washington, D.C. 20036

April 23, 1984.

Mr. Kevin Mulvey
c/o R. Schulze
2410 Rayburn House Office Building
Independence and S. Capitol Streets, S.W.
Washington, D.C. 20515

Dear Kevin:

We have received the February 28, 1984 steel import data tables which were sent from ~~Thelma Askey~~ of the minority staff of the Ways and Means Committee to Republican members of the Committee. Our review of the data found only very small differences from the data that we use. However, this data package is misleading in that it does not show total imports or the impact that imports have had on the domestic steel producers' balance sheets.

The following tables give a more complete view of the steel import problem and its impact on the U.S. industry in the 1981-83 period.

U.S. Shipments/Imports
(000NT)

	1981	% of apparent steel supply	1982	% of apparent steel supply	1983	% of ap steel su
U.S. shipments	88,450	81.1	61,567	78.2	67,584	79.5
total imports	19,898	18.9	16,663	21,8	17,070	20.5
Imports from:						
EEC	6,482	6.1	5,597	7.3	4,114	4.9
Japan	6,220	5.9	5,185	6.8	4,237	5.1
Canada	2,899	2.7	1,848	2.4	2,379	2.9
all other countries	4,297	4.2	4,037	5.3	6,340	7.6
Imports in "other" Category						
Brazil	548	0.5	605	0.8	1,257	1.5
Korea	1,218	1.2	1,062	1.4	1,728	2.1
Spain	730	0.7	547	0.7	610	0.7
Mexico	41	0.04	113	0.1	651	0.8
Taiwan	131	0.12	118	0.2	177	0.2
Argnetina	61	0.07	167	0.2	282	0.3

U.S. Steel Industry Net Income 1981-83 (Billions)
and Capability Utilization

	Profit (Loss)	Capability Utilization
1981	2.6	78.3%
1982	(3.2)	48.4%
1983	(3.6)	55.4%

Condition of the Industry

- U.S. steel industry shipments of steel mill products have been at depression levels since late 1981. The last "good" year the industry had was in 1979 when the capability utilization was 87.8%. Capability utilization in 1982 was 48.4% and in 1983, 55.4%.
- The domestic industry has lost 6.8 billion dollars since the beginning of 1982 and in 1984 the industry may only break even. In the last profitable year - 1981 - net income was only a paltry 4.3% of sales.
- The 6.8 billion in losses since 1982 have resulted in what amounts to a "program" of self liquidation by the domestic industry which has seriously reduced our ability to modernize and rationalize facilities.
- Capital expenditures in 1983 were less than $2 billion, while the minimum need to improve our international competitive position is estimated to be $6-7 billion per year.

Labor

- Total employment in the industry has declined 40.5% from 1981 to 1984.
- Workers in the industry have had substantial cuts in wages and benefits since 1982, including production workers who took a 10% cut in wages and benefits in a collective bargaining agreement which will in effect freeze 1983 wage levels until August 1986.

Foreign Producers

- Huge increases in steelmaking capacity in the Third World in recent years coupled with excess capacity in the EEC and Japan have resulted in increased pressure for these producing nations to export especially duirng periods of worldwide recession such as we have experienced since 1981.
- According to a recent Congressional Budget Office study the overcapacity problem has led "many foreign producers (to) sell steel in the U.S. at prices below their average cost."
- The vast majority of steel productive capacity - even in the Western World-is government owned and/or controlled.
- Unfair trade cases have been filed against many of these steel producing nations' steelmakers and have resulted in findings consistent with the claims by U.S. producers that the products are being unfairly traded in the U.S. market.

Imports

- Imports from Third World producers such as Brazil, S. Korea, Mexico, Argentina, etc., have increased dramatically in the last two years - on a tonnage basis up 48% in 1983 compared to 1981, and as a share of the U.S. market, up 81% during this period. All of these countries' major steel exporters are government owned and/or controlled.

- The increases in imports from the Third World producers have more than compensated for the delcine in imports from the EEC and Japan.
- Despite an agreement by the EEC to limit pipe and tube exports to the U.S. to the 1979-81 average of 5.87% consumption, EC shipments to the U.S. were 8.12% of comsumption in 1983 - a 38.3% overage.
- While on a tonnage basis total imports of steel mill products have been lower in 1982 and 1983 than in 1981, they have been higher as a percent of the U.S. market. Morever, despite the fact that U.S. producers have filed and won many unfair trade cases in 1982, 1983 and 1984, imports have increased to even higher levels in the first two months of 1984 - capturing over 26% of the U.S. market.
- The average value per ton of imported steel mill products has decreased from $515 per ton in 1981 to $374 per ton in 1983. While some of this decline could certainly be linked to changes in the mix of products entering the U.S., much of the decline is just as certainly linked to an increase in predatory pricing on the part of Third World and other producers of steel. This predatory pricing has had a devastating effect on U.S. producers - contributing to the massive losses experienced in 1982 and 1983 and decreasing our ability to modernize and rationalize facilities.

I hope these data and analysis are helpful. If we can be of further assistance, do not hesitate to let us know.

Sincerely,

David H Phelps

David H. Phelps
Director
International Trade & Economics

DHP/ljw
Attachments

Chairman GIBBONS. I am now referring to a table I have numbered table 3 under tab L of the briefing book that members have entitled "Hourly Compensation Costs for Production Workers in Various United States Manufacturing Industries (1981)."

Now, Mr. Hillis brought up variations between wage rates around the world and obviously there are serious wage rate differentials around the world in this industry as well as others.

It is sort of remarkable to me that no matter where we go the wage rate differential seems to stay about the same year in and year out. It is that that worries me.

On the table I refer to, on an index of 100—100 being the average hourly compensation rate for all American manufacturing—I notice the third item shows primary metal industries, iron and steel, that the compensation rate in 1981 was approximately 174, or 74 percent higher than the average American industrial compensation rate. In fact, on this chart, it was the highest of all wages in the United States in 1981.

I realize there has been some give back and the information we have is that in 1983, the give back was worth about $1.01 per hour. So it wouldn't affect this very greatly.

How can we as a committee of Congress justify special protection for an industry that is the highest paid industry on an hourly basis in the United States and perhaps in the world?

Mr. GAYDOS. I will make a layman's response and I think you will have the experts here shortly, Mr. Chairman. I am sure they will go into it in more detail.

Let me suggest to the chairman and the committee, when we talk about the differential over the years, it is always admitted that the American wage earner was making more money but you have another factor of productivity involved. The steel industry as a whole always took the position up until 2 or 3 years ago, always took the position they didn't care about the differential.

They defended their ability to compete worldwide and in this country, if the trade laws were enforced fairly, even paying the higher wage in this country, which admittedly is a very high wage, that they could meet the competition.

What I can't understand, Mr. Chairman, and I leave it to you for your consideration and analysis and application, the fact is that we have a low-wage payor supposedly like South Korea or Japan in comparison to ours and yet they are caught dumping with their low wages. They are still dumping.

Chairman GIBBONS. I am not comparing, Mr. Gaydos, the United States with Japan. I am comparing American workers with American workers.

On this chart, with 100 being the average, the steel worker comes out at 174 percent; the refinery worker comes out at 158; auto workers come out at 165 percent. Those are way above the average. The lowest figure shown on here is for apparel and textile products at 57 percent.

We have some problem of justice here. Yet here we are faced with a responsible group of legislators and an industry asking us to give them something far and beyond what any other American industry gets in the way of government intervention and yet they maintain the highest hourly compensation of any industry, any group of laborers, anywhere in the American economy.

Mr. GAYDOS. I don't know if that is true, Mr. Chairman.

Chairman GIBBONS. How can we do justice by picking out the highest paid people and treating them better than we treat anybody else.

Mr. GAYDOS. Mr. Chairman, let me, if I may——

Chairman GIBBONS. That is a tough one for me to answer.

Mr. GAYDOS. I don't think it is a problem, Mr. Chairman. Doesn't bother me. I won't single out an industry like the steel industry and say they are getting paid too much. Let me make some comparisons.

Let's take a look at the airline industry. It is an industry heavily subsidized by this Government, yet those pilots get paid $90,000 and $100,000. You want to take a group—there are a lot of pilots because we have a lot of activity. Why don't you take that group and say, now look how high they are paid. They are subsidized. The Government money is there in different forms.

I can go seriatim where employees are paid a lot more. In fact, fabrication, bridge workers get big money. If the committee is going to start comparing wages in different areas, you are going to cut across the spectrum of our entire enterprise system.

I don't think, Mr. Chairman, that issue prevails in this situation. The steelworkers took a 10-percent cut and if the business keeps going and we allow our markets to be directly and indirectly taken away by unfair practices there will probably be more percentage cuts and probably ultimately be nobody working, we will lose the entire industry.

Chairman GIBBONS. I wish you wouldn't put me in that position of trying to fill that gap. Let me say this——

Mr. GAYDOS. But that is the comparison you are making.

Chairman GIBBONS. Let me say this. There are many workers in America and in effect what we are being asked to do here is take workers at the top end of the economic scale, who are already at the top, who don't even have anyone in their peer group, they are all out by themselves at 174 on a scale of 100—we don't have anybody other than petroleum workers and auto workers anywhere near them; certainly textile and garment workers are not near them and a lot of other industries are not anywhere near them.

How can we say to these other industries—you are throwing your industry open to retaliation and yet we will treat the steelworker that much better. That is the equity problem we have. I agree it is not one you have but it is an equity problem that Sam Gibbons has.

I want to say that I looked very closely at the give-back—and I realize that takes a lot of labor statesmanship to give that back—but the give-back was worth $1.01 an hour in 1983; 1983 is not the best example. The give-back was probably more valuable than that in terms of dollars, and also perhaps in change of work rules that we cannot measure in dollars and perhaps we will hear from other witnesses about that.

But the give-back has not been dramatic enough to really substantially alter the workers in the steel industry from that 174 position down to all the rest of their brothers in the American work force.

Mr. **Gaydos**. I would hope, Mr. Chairman, that the free market would take care of the wage in its ultimate form.

Chairman **Gibbons**. I would, too. But, we are not asking for a free market here, you are not asking for a free market, you are asking for a controlled market.

Mr. **Gaydos**. I am asking for a free market in this respect, Mr. Chairman, that our market be as free as a comparable market in Japan, Europe, Brazil, Formosa, what have you. That is not the case today, however. That is not the case.

If I may suggest to my chairman, we have a Sugar Act, we have a Tobacco Act, we have direct subsidies over there. I don't see anybody raising a question as to what the sugar manufacturers or the employees make running the machines out there, nor in tobacco. Those are direct subsidies.

I mentioned a good example of the pilot on the airplane and what salary he received. But if the Chair persists on getting into these comparisons as far as who gets paid what, I think you are treading on dangerous grounds and you will get into such a dilemma none can solve it.

I humbly submit to the chairman that that argument should not be applied to the present situation.

Chairman **Gibbons**. I will ask unanimous consent that we put table 3 in the record at this point and is there objection to that?

[The information follows:]

TABLE 3. Hourly Compensation Costs for Production Workers in Various United States Manufacturing Industries (1981)

Industry	(A) Average Hourly Earnings a/	(B) Total Hourly Compensation b/	(C) Total Hourly Compensation Index (All Manufacturing = 100)
All Manufacturing	$ 7.98	$ 10.96	100
Primary Metal Industries	10.81	16.12	147
Iron and Steel e/	12.60	19.04	174
Nonferrous Metals e/	10.28	15.16	138
Food, Beverages, and Tobacco	7.48	10.08	92
Textile Mill Products	5.52	6.97	64
Apparel and Other Textile Products	4.96	6.22	57
Leather and Leather Products	4.99	6.44	59
Leather Footwear	4.82	6.22	57
Lumber and Wood Products	7.00	9.00	82
Furniture and Fixtures c/	5.90	7.53	69
Paper and Allied Products	8.60	11.57	105
Printing and Publishing	8.18	10.53	96
Chemicals and Allied Products	9.12	12.60	115
Synthetic Fibers	8.53	11.98	109
Petroleum and Coal Products	11.38	15.97	146
Petroleum Refining	12.18	17.31	158
Rubber and Plastics Products	7.16	9.89	90
Rubber Products d/	8.34	11.97	109
Tires and Inner Tubes	11.05	16.32	149
Rubber and Plastics Footwear	4.77	6.40	58
Plastics Products, Nec d/	6.55	8.81	80
Stone, Clay, and Glass Products	8.27	11.31	103
Glass Glassware	8.69	12.31	112
Pottery and Related Products	6.80	9.23	84
Fabricated Metal Products c/	8.20	11.19	102
Cutlery, Handtools, and Hardware	7.77	10.79	98
Machinery, Except Electrical	8.81	12.00	109
Machine Tools and Equipment	8.53	11.89	108
Electric and Electronic Equipment	7.62	10.61	97
TV Receiving & Related Equipment f/	7.36	10.31	94
Electronic Components & Accessories	6.62	9.02	82
Transportation Equipment	10.39	15.72	143
Motor Vehicles and Equipment	11.01	18.14	165
Aircraft, Space Vehicles, and Parts	10.30	14.82	135
Ship and Boat Building	9.00	12.78	117
Instruments and Related Products	7.43	10.19	93
Miscellaneous Manufacturing	5.96	7.79	71

Source: U.S. Bureau of Labor Statistics.

(continued)

(Continuation of Table 3)

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a/ Average hourly earnings include pay for time worked (basic time and piece rates plus overtime premiums, shift differentials, other bonuses and premiums paid regularly each pay period, and cost of living adjustments) and pay for time not worked. Average hourly earnings are computed per hour paid.

b/ Includes fringe benefits and average hourly earnings.

c/ Metal furniture and fixtures are included in furniture and fixtures.

d/ Rubber products include plastic footwear and plastics hose and belting.

e/ Excluding foundries.

f/ Electronic equipment for home entertainment, including radio receiving equipment, phonographic equipment, tape players, and related equipment as well as television receiving equipment (SIC 3651).

Source: U.S. Bureau of Labor Statistics.

Chairman GIBBONS. Let me say we are faced with having to vote. I am sure, Mr. Jenkins, you want to ask questions?

Mr. JENKINS. Mr. Chairman, unfortunately I have to leave because of a conflict. I want to ask Mr. Hillis if he can get some figures for me on one issue.

Bud, if you could get the figures on the amount of imported steel used by the Defense Department, I would appreciate it.

Mr. HILLIS. Yes. I am certain we can get that for the record.

[See letter at p. 28.]

Mr. JENKINS. We are talking about the wages, which includes my textile workers.

Chairman GIBBONS. I notice they are down at the 64 mark.

Mr. JENKINS. That seems to be a real incentive for global quotas on the textile industry because they are a little underexposed.

Thank you, Mr. Chairman.

Chairman GIBBONS. Well, unless there are further questions we will recess, go vote and be right back with our steel industry panel.

[Recess.]

Chairman GIBBONS. The subcommittee will resume its sitting.

Ladies and gentlemen, could we take our seats and resume as rapidly as possible.

While we are taking our seats, if the American Iron & Steel Institute panel will come forward, David Roderick, chairman and chairman of United States Steel Corp.; Donald Trautlein, chairman and chief executive officer, Bethlehem Steel Co.; Mr. James Chenault, Jr., president and chief executive officer of Lone Star Steel Co.; Mr. Regelbrugge, president of Georgetown Industries, Inc., and Dr. Lena, chairman of AL-Tech Specialty Steel Corp.

Mr. Roderick, and gentlemen, we welcome you here. We regret and recognize that you have a sick industry on your hands. We are here to listen to what you have to say and any suggestions you wish to make.

Mr. Roderick, we will have you proceed first, if you will.

STATEMENT OF DAVID M. RODERICK, CHAIRMAN, AMERICAN IRON & STEEL INSTITUTE AND CHAIRMAN, UNITED STATES STEEL CORP.

Mr. RODERICK. Thank you, Mr. Chairman.

We are delighted that you acknowledge that we do have a sick industry and we are going to give you the opportunity to be the doctor.

Chairman GIBBONS. I am afraid you have turned it over to a quack now. This is a collegial body. We work together.

Mr. RODERICK. Very good, Mr. Chairman.

For the record, I am David Roderick, chairman of the American Iron & Steel Institute, and also chairman of the United States Steel Corp.

These hearings that you are conducting on the American steel industry are of paramount importance—not only to our domestic steel industry, but to the entire business community, and we think the Nation, both short- and long-term. At stake is nothing less than our future as a major world industry, and our position as the principal supplier of steel to the American economy.

With me today are Donald Trautlein, chairman of Bethlehem Steel; Adolf Lena, chairman of the Specialty Steel Industry of the United States and CEO of AL-Tech Co.; James Chenault, CEO of Lone Star Steel; and Roger Regelbrugge, CEO of Georgetown Steel. And last but not least, Mr. Peabody of the Iron & Steel Institute.

Each of us, except for Mr. Peabody, will offer his view of the industry's problems from his own perspective. But each of us will have the same basic message: simply, that steel is now in its deepest crisis since the depression of the 1930's. And a small upturn in our short-term fortunes cannot be allowed to lull us into believing the long-term issues are resolved. They are not.

The main continuing cause of this crisis is still imports—and the situation grows steadily worse. Any solutions, to be effective, must be undertaken at once.

That is why we believe that H.R. 5081, cosponsored by 133 Members of the House of Representatives, with its companion Senate bill S. 2380, offers the most effective solution.

The fact that these hearings are being held at all is acknowledgment of the precarious state of the domestic steel industry. A brief summary of the essentials of the crisis we are experiencing might be useful.

The industry's losses in 1982 and 1983 totaled over $6 billion.

There were over 170 plant or facility closings in the last 2 years alone, affecting virtually every industrial State, but particularly the Great Lakes States. And major metropolitan areas of Pittsburgh, Buffalo, Chicago, Cleveland, Gary, Johnstown, and Youngstown have been ravaged by that unemployment.

Employment, which averaged 453,000 workers in the period 1975 through 1979, slid to 243,000 in 1983—a decline of 46 percent.

Capital investments have been reduced when they should have been increased. Steel's capital needs have been projected to be in excess of $5 billion annually merely to maintain minimum viability and capacity. Yet in the past 5 years, capital investments have averaged only $2.3 billion and dipped to $1.9 billion last year.

In fact, the industry has lost nearly one-third of its net worth between 1981 and 1983.

To continue in this manner is tantamount to the eventual liquidation of the domestic steel industry. As we know, Mr. Chairman, steel is a key industrial material that accounts for over 90 percent of all metals usage in the Nation. To permit such an industry to dissolve literally before our eyes I think is to invite long-term disaster.

And one of the major reasons for this crisis is chronic overcapacity in the steel-producing nations of the free world. How ironic—and how tragic—it would be, if we in the United States of America had to turn to foreign producers for our supply of steel because of the decline of our own domestic capability. For while there is excess capacity worldwide, we are the only nation that could not presently supply our own needs in a time of reasonably strong demand. We have not overbuilt capacity in the United States, yet we suffer the direct and serious consequences of "their" overbuilding.

This overcapacity exists because most foreign steel production capacity is government owned, government controlled—or government subsidized—or all, and these governments have been unwilling, for their own political and social reasons, to restructure in order to match capacity with their own demand.

Despite heavy losses year after year by these "government-sponsored" steel industries, the market system has not been allowed to work its will. And without that discipline, and in the absence of a penalty for failure, or the need to make a profit or generate capital from within, most of these foreign producers and their governments have been spared from the painful act of shrinking and restructuring.

They have insulated their own markets from imports while demanding unlimited access to ours on their terms. They have kept operating and modernizing, and yes, even expanding because they had, until very recently, virtually unlimited access to their respective national treasuries. I might say also a little bit to the availability of our Treasury.

The growing world oversupply of steel mill products has increasingly been shipped to the U.S. market. As Japan, the European Community, and the Third World severely limited access to their own domestic markets, the world's surplus inevitably drained into ours—the largest and perhaps the last remaining open market in the free world.

In addition to targeting the U.S. market in terms of volume, pressures on foreign governments to maintian full employment and maximize tonnage have encouraged sales to the United States at almost any price regardless certainly of what the cost is. As a result, we have been flooded with dumped and subsidized steel. This has seriously injured U.S. producers by reducing sales and production volume, increasing costs and reducing cash flow for modernization.

Who can measure the true damage being done to our domestic steel industry, to its employees and their communities, to shareholders and ultimately to the robust health of our industrial base? Is it the capital shortfall necessary for renewal? Or the 32-percent loss in steel segment equity over the past 3 years.

And is it enough to speak only of financial damage? What of the damage done to the social fabric because we are the sacrificial lambs to a concept of world trade honored only in its breach?

Your reaction at this point, Mr. Chairman, might be a question. Why doesn't the industry use existing trade laws to get relief from the massive injury being caused by unfairly traded imports? The answer is: We have used them, all of them, and to little overall avail. They have been ineffective.

When our Government, back in 1977, made its first attempt to address the steel trade problem, the result was the trigger price mechanism, designed to make antidumping laws more responsive and timely. After an inauspicious lifespan, the TPM collapsed altogether in 1980. The system was reinstated, and U.S. Steel, which had earlier filed unfair trade cases, withdrew our complaints in response to the promise of wholehearted Government enforcement of the TPM. But the magnitude of the problem brought it down once again, and the self-initiated unfair trade cases brought by the administration were too little and too late and too ineffective.

Thus, the industry was forced in January 1982, at enormous expense, to file its own cases, principally against the European Community. After findings in many of those cases of both injury and substantial unfair trade margins, the administration and the EC/SC finally proposed, and our petitioners accepted, the present U.S.-EC/SC arrangements.

Next came the problem of Japanese steel imports. Near the end of 1982, the American Iron and Steel Institute filed a case under section 301 of our trade laws alleging that the Japanese export restraint agreement with the EC/SC had caused injury, Mr. Chairman, to the U.S. industry and was clearly contrary to provisions of the GATT.

The U.S. Trade Representative, which administers proceedings under that statute, entered into discussions with the Japanese Government and, as a result, Japan reportedly undertook a policy of voluntary restraint of steel exports to the United States so as not to disrupt our market. The USTR accepted the Japanese undertaking and thereupon dismissed the AISI petition. But in dismissing it, it was admitted the correctness of the position we had; namely, that the Japanese were inconsistent in the Japanese-EC/SC agreement which had been kept secret up to the time we disclosed it.

So by the beginning of last year two major sources of steel imports were under restraint of one kind or another. One might have thought that this would have had a moderating effect on imports. Not so. Import penetration of our market, which had been at 16.3 percent as recently as 1980, rose to 20.5 percent in 1983, and this year is running at an incredible rate of 26 percent.

There is no accommodation whatsoever with developing countries. That is not really totally correct but is essentially correct, Mr. Chairman.

South Korea and Brazil now rank second and third as the largest steel exporters into the U.S. market. Third World countries account for the dramatic increase in foreign imports.

Of the time allotted me, Mr. Chairman, I have chosen to use a major portion of it to recount some recent trade history in order to indicate that our industry has used our trade laws to seek relief from injury. We have worked patiently with two administrations to try to solve the problem, but despite all these efforts, imports disrupt our market more savagely than ever.

We continue to seek redress within the trade law framework. In the last 6 months, 41 unfair trade cases have been filed against 10 countries outside the EC and Japan. Another petition has been filed by Bethlehem and the USW under section 201 of our trade laws. We are still spending enormous sums to develop additional cases.

Yet, imported steel is taking a record share of our market—a share twice what the European Community accepted in its market last year, and over five times what Japan accepts.

And so our industry—which until last year was unable to reach a consensus regarding steel quotas—now believes that it is the indispensable solution.

I want to stress that the American steel industry is not sitting on its hands waiting for the quota bill to be passed. We have been engaged in massive self-help efforts despite our financial constraints, and incurring severe debt to do so. Let me tick off some of the improvements.

Productivity gains are our chief objective. The continuous casting capability of the industry will double over the next 5 years. Since 1982, 16 new continuous caster machines have become operational or will be before yearend. This process reduces energy consumption, while increasing yield and improving product quality.

Significant improvements are being made in the fields of computerization, automation, metallurgy, sensor development, and electric furnace operations—where we are, I think, the world leaders.

We have sold unneeded assets, closed economically inefficient facilities, and eliminated unprofitable product lines.

On the human side: Employee benefits—a major employment expense—have been reduced substantially, lowering costs while preserving major health care protection.

Management salaries have been pared and management ranks have been thinned drastically. Additionally, reductions in clerical personnel have been effected. These white collar reductions range company to company from 30 to 40 percent, are the norm for the companies sitting here facing you today.

We have initiated unprecedented bargaining with the United Steelworkers of America for first-time concessions, and I think Mr. Williams will attest to that in his testimony. Since March 1983, we have a new union contract which has the effect of stabilizing labor costs through mid-1986.

Our suppliers have also taken into account the crisis mode of the steel industry by lowering the costs of goods and services purchased.

New inventory policies have streamlined operations and cut costs—new ways of raising capital have been found—and selective efforts to diversify have been made, designed to restore corporate profit stability without diminishing funds available for steel modernization.

But all of these self-help efforts, Mr. Chairman, are futile if the core problem of unfairly traded imports remains unsolved.

We think that H.R. 5081 provides the solution. We are confident it will prove acceptable to the Congress once it is analyzed and debated. It provides a comprehensive framework for import limits, yet in a manner that gives this—and the next administration—the flexibility required for formulating and implementing economic and foreign policies.

Because H.R. 5081 is so critically important to the industry at this juncture, I have focused my remarks on the need for global quantitative restraints on steel imports. I recognize, of course, that in calling these hearings you also wish to hear from us on a wide range of steel industry issues. These are addressed more fully in my written testimony, which has been supplied to your committee yesterday, and which I would be happy to supplement at your request.

Mr. Chairman, I hope I have been able to impress upon you the seriousness and urgency of the crisis in American steel.

The steel industry is making every effort within its power to solve the problems facing us. Suppliers, management, and the union has made sacrifices of its own. We are making progress—but not of sufficient magnitude to offset the problem of foreign imports being unfairly imported into this market. It is not within our power to compete with foreign governments.

We have done what we can do. Now we need your help. It is essential that this country take the legislative steps required to bring some order to the domestic steel market. Your committee's endorsement of H.R. 5081 would be a substantial help in ensuring the survival of the Nation's most basic industry—its steel industry.

[The prepared statement follows:]

STATEMENT OF DAVID M. RODERICK, CHAIRMAN, UNITED STATES STEEL CORP., AND CHAIRMAN, AMERICAN IRON & STEEL INSTITUTE

Mr. Chairman:

This hearing on current conditions in the U.S. steel industry, and also on steel trade issues is of paramount importance to the domestic steel industry. At stake is nothing less than our future as a major world industry, and our position as the principal supplier of steel to the American economy.

We are here today to urge the enactment of H.R. 5081, the Fair Trade in Steel Act, which 140 Members of the House now support. This bill is the only effective way to return some equity to the conduct of trade in steel, which has become a gross caricature of a functioning market ---- with millions of tons of steel routinely and flagrantly entering the U.S. at prices below their costs of production.

Mr. Chairman, we have been told by a succession of Administrations that the way to obtain fair trade in steel is to bring unfair trade cases against dumped and subsidized steel products. We have filed literally hundreds of cases for almost a decade , and we continue to do so. But the result has been at best merely the temporary correction of an abuse from one source, only to confront a similar pattern from another.

The steel industry is in a state of crisis. The industry was severely injured by the deep recession which gripped the economy, injury further accentuated by dumped and subsidized imports, high employment costs, and inadequate capital expenditures.

The American steel industry operated at 48% of capacity in 1982, and 55% in 1983, the lowest levels since the depression years of the the 1930s. Domestic steel shipments amounted to 59.8 million tons in 1982 and 67.5 in 1983, the lowest levels since 1949. Low levels of operations over the past two years have had disastrous consequences for the industry's profitability and cash flow. Pre-tax losses in steel operations were more than $8 billion in the years 1982 and 1983 (including losses associated with the closure of facilities). These heavy financial losses over the past two years have reduced investment to a point where the long-run competitiveness of the industry is being severely weakened.

Unemployment in the industry is still at a depression level -- 96,000 employees were on layoff or short work week at the end of 1983 -- equivalent to almost one-third of the steel workforce.

The level of productivity in the American steel industry, while high compared to that of most major foreign producers, is offset by high employment costs. Steel companies and the United Steelworkers are addressing this disadvantage to ensure that the industry remains competitive and continues to provide major employment opportunities in steel-producing regions.

Massive government involvement in foreign steel industries has distorted the operation of the market mechanism in steel trade. Private producers in the U.S. cannot compete with inefficient, yet subsidized foreign producers, operating from protected home markets and selling at export prices significantly lower than their costs. This problem is especially severe in steel, where government subsidies have generated 150-200 million net tons of excess capacity in the Western world economy outside of the United States. Moreover, excessive government involvement and excess capacity now exists in many developing countries - not just in the EC and Japan

Since 1980, moreover, the international competitive position of the American steel industry has been weakened by misaligned exchange rates. The high value of the dollar relative to foreign currencies has altered longstanding competitive cost relationships.

The steel industry's modernization continues to fall below the level required and will continue to do so until an effective trade policy for steel is put in place.

That is worth doing, Mr. Chairman, because the American steel industry is still cost competitive in its home market. In spite of aging equipment and a lower percentage of continuous casting than in Japan and Europe, American steel producers are more efficient in the use of many inputs than are some of their foreign competitors. Even against Japanese steel producers, U.S. steel producers are still highly competitive in the U.S. market. Although unit labor costs are unsatisfactory, when compared to those of Japanese and Korean producers, and must be improved, U.S. carbon steel labor productivity is as high, or higher than in these two countries. The strong raw-materials position of U.S. producers, together with the basic strengths of the American economy (e.g., highly developed capital markets, access to advanced technology, and large home market), still provide American steelmakers with significant long-run advantages. Moreover, the U.S. potential for significant further cost reduction is higher than for the other major industries compared.

The present steel crisis is too large to fit into the category of cyclical fluctuation. The severity of this situation is causing sharp changes in the industry. Changes in government policy are urgently needed. An inadequate response will tranform the present crisis into a much deeper, more permanent contraction than the level implied by the industry's actual competitive condition -- at great cost to the industry, its workers, and to the national economy.

The longer-term competitive prospects of the American steel industry depend upon our Government's response to the flood of subsidized and dumped imports entering the U.S. market. Government action must occur to reestablish the conditions under which private domestic producers compete with semi-public or fully nationalized foreign competitors. The steel import problem is an example of the overriding problem facing U.S. trade policy; whether the United States can preserve the private character of one of its major industries in a world system in which intervention by foreign governments has become the norm.

PRESENT POSITION OF THE INDUSTRY

Structure and Concentration

The steel industry consists of 92 firms engaged in production of raw steel and finished steel products. In 1983, integrated producers accounted for 78.0% of raw steel production and non-integrated producers, 22.0%. U.S. mini-mills in 1983 had approximately 18.2 million net tons of capacity, and 12.7 million net tons of raw steel output, accounting for approximately 15% of U.S. production last year. In 1983, the top 3 steel companies accounted for 39.2% of total output and the top 8 firms accounted for 72.0%. Estimated capacity in January 1984 was 135.3 million net tons, down from 150.6 million net tons in January 1983, and 160 million net tons in 1977. The U.S. shutdown of capacity in the year 1983 was equivalent to the loss of an industry equal to the size of the Canadian or British steel industries.

Production and Shipments

Production in 1983 was 84,615,000 net tons, or 56.2 percent of capability. This compared with 74,577,000 tons, or 48.4 percent in 1982. The percentage of production coming from basic oxygen furnaces rose to 61.5 percent in 1983, compared with 60.7 percent in 1982; electric furnaces produced 31.5 percent last year, compared with 31.1 percent in 1982; and open-hearth furnace production declined to 7.0 percent, from 8.2 percent in 1982.

The percentage of raw steel produced by continuous casting was 32.1 percent in 1983, against 29.0 percent in 1982.

Shipments in 1983 totalled 67,584,000 net tons compared with 61,567,000 tons in 1982. This level of shipments, while a modest improvement over the 33 year low of 1982, was still at a depression level, in part due to the continued high level of imports, which took 20.5% of the U.S. market in 1983.

Employment

While employment levels in the American steel industry recovered slightly during 1983 from the bottom of the two-year recession, steel industry unemployment was still far higher than in the nation as a whole.

Average 1982 employment in the steel industry was 242,700 persons (including both hourly and salaried employees), compared with 289,400 in 1983. These figures compared with an average of 453,000 persons employed in 1975-79, indicating that employment in 1983 fell 46 percent below that base period.

Financial Condition of the Industry

The total cash flow of the steel companies has not been adequate to meet capital spending requirements. During the 1970s, capital expenditures exceeded internally generated funds by over $1.5 billion because of low profitability, and tax depreciation policies which did not cover inflation in replacement costs.

To compensate for the deficit of internally generated funds, steel companies increased borrowings. This has resulted in increased debt ratios. The high debt levels and lower profitability have resulted in reduced debt ratings which limit the industry's financial capacity for additional increases in debt and further reduces profitability, due to increased financial costs on new debt issues. The six largest steel companies reduced dividends over 70% during the past two years. These reductions, combined with low ratios of market price to book value and limited expectations for substantial improvements in industry profitability and cash flow, have restrained the industry from raising any significant additional equity capital at reasonable costs.

During 1979-1983, "Steel Segment"* uses of funds (net cash for long term investment in plant and equipment, and Steel Segment dividends) far exceeded net cash provided from operations. Even without Steel Segment dividends, net cash for long term investment in plant and equipment exceeded internally generated net cash flow from steel operations, by about $1.3 billion. These data affirm that the steel industry has not used cash flow from steel operations for non-steel investment purposes.

Net losses from "Steel Segment" operations totalled $5 billion for 1982 and 1983, through the third quarter. The fourth quarter 1983 plant shot-downs and operating losses caused total net losses to increase to more than $6 billion in 1982-83.

Capital expenditures for the Steel Segment during the period 1980 through September 1983 averaged only $2.3 billion per year, for 86% of the industry -- equivalent to $2.7 billion for the total industry. This is alarmingly below the level necessary to maintain and modernize existing plant and equipment, which we estimate to be about $5.5 billion annually, based upon an annual replacement rate of 4.4% of facilities.

As a result of inadequate generation of cash internally, long term debt for the Steel Segment, including that due within one year, rose from 43.9% of equity, at the end of 1979, to 80.9% of equity by the third quarter of 1983. From 1981 to 1983, shareholder equity in the "Steel Segment" of steel companies declined approximately $5 billion.

Due to its heavy losses, the steel industry had an Investment Tax Credit carryover of $1.2 billion in 1983. Moreover, the industry Net Operating Loss (NOL) carryover rose from $1.6 billion at the end of 1982 to $5 billion at the end of 1983.

*The financial data in this statement are preliminary and derived from a Price Waterhouse & Co. financial steel industry survey still underway. This survey will provide balance sheet, income statement, and cash flow statement for the Steel Segment as well as for total corporate operations in each participating company. The 33 participating companies accounted for approximately 86% of U.S. raw steel production in 1983.

These data affirm the deteriorating financial condition of domestic steel companies. Balance sheets of individual steel companies must be repaired quickly to avert further potential shut-downs or the financial collapse of some companies in the industry.

Industry Self Help Measures

As indicated in the industry's position paper issued in February 1983, significant operating improvements are under way in the steel industry. Average blast furnace output in the American steel industry has increased by over 50% since 1971.

Continuous casting capacity will double in the next five years; approximately 16 continuous casting machines (16 million tons total capacity) will be installed during 1982-84. Other significant improvements are being made in metallurgy, computerization, and electric-furnace operations, where the U.S. industry is the world leader. Major steel consuming manufacturers with world-wide steel consuming operations have recently asserted that the quality of American steel is second to none.

Non-union employment costs have been curtailed substantially. American steel companies during 1982-83 not only substantially reduced administrative work forces in line with actual and projected economic conditions, but made a large number of changes in compensation and benefit programs for both management and other non-union salaried employees. Overhead has been reduced by approximately 25%.

Stringent energy conservation measures have been adopted by the industry. Energy conservation efforts in the steel industry since 1972 have resulted in a 25 percent reduction in the Btus required to produce a ton of finished steel product. More improvement is in progress.

Diversification efforts have been intensified. A significant portion of the steel industry has diversified into a variety of non-steel business -- to improve profit stability. This has been accomplished primarily by external financing and hence has not taken internally generated funds away from investment in steel facilities.

Incremental technology initiatives are gaining momentum in the industry. They include major efforts in the following areas: recycling and resource recovery from waste materials; process control and sensor development; rapid-in-process analysis of liquid metal; direct measurement of temperature distribution within a solid or solidifying body of hot steel; automatic detection of pipe and gross porosity in hot and cold strip.

Despite these important initiatives, it is apparent the best and fastest way to improve the technological position of the American steel industry is to increase cash flow and therefore the capability to invest at a much higher level in the latest existing technology. This does not preclude being poised to exploit new technology such as strip casting when it becomes available. What is needed is sufficient investment capital to install continuous casters, process controls, and other major equipment items, to increase product quality and reduce costs. As several other major world steel industries are ahead of us in regard to investment in new equipment, we must catch up, and there is reason to do so. Our potential for reducing costs is now greater than theirs.

COMPETITIVE STATUS OF THE INDUSTRY

Mr. Chairman, government steel policy cannot ignore an essential question: How competitive is the American industry in its own market, and how can it be made more competitive?

Comparative costs can change rapidly. However, present cost relationships indicate it is incorrect to contend the U.S. industry can no longer compete in its home market.

Current Data Show U.S. Industry is Competitive

The latest data (2nd quarter 1984) from the World Steel Dynamics carbon steel model show that even with current misaligned exchange rates the U.S. steel industry is now cost competitive in its own market. This is shown in Table 1.

TABLE 1

COSTS PER NET TON SHIPPED*

2nd Quarter 1984
(at Actual Operating Rates)

	U.S.	Japan	West Germany	France	U.K.
Labor Costs............	$137.61	$ 95.98	$124.28	$126.74	$ 90.33
Raw Materials Costs....	301.69	255.33	242.62	221.18	255.33
Financial Costs........	38.76	96.35	49.73	75.19	51.67
Total................	$478.06	$447.66	$416.63	$423.11	$397.33
Dec. 1983 Entry Costs (duty, freight, handling) Into U.S. Market..................		$ 74.61	$ 70.76	$ 70.76	$ 70.76
Landed Costs in U.S., before Profit..........	$478.06	$522.27	$487.39	$493.87	$468.09

*Source: Table 5, World Steel Dynamics, Steel Strategist #9, February 1984--
Paine Webber Mitchell Hutchins, Inc.

Mr. Chairman, I reiterate these cost data are not domestic steel industry data, but instead, are from the Peter Marcus Paine Webber model, generally acknowledged to be the best and most accurate public model available for comparative information on the major world steel producers.

To illustrate the nature of our trade problem, table 2 lists the average value of steel imports entering the U.S. These data show that steel import values continue to be well under costs of production in most of the countries from which they originate.

TABLE 2

Average Value of Imports**	Dollars per net ton
Year, 1983	$374.48
First Quarter 1984	$362.77

There is now little doubt that imports are entering the United States at prices well under their costs of production. This has been occurring for nearly two decades. Moreover, these data on foreign costs of production embody foreign subsidies for materials and labor costs, grants which offset financial costs, and subsidized interest rates. If these subsidies were included, as they should be, foreign costs of production would be far higher than those listed above.

** Source: U.S. Bureau of the Census -- FOB Value

Comparative Steel Costs are Distorted by Misaligned Exchange Rates

In addition, assessments of the underlying competitiveness of the U.S. steel industry which ignore exchange rates are inherently distorted. This is illustrated in Table 3 , which shows how costs in the 2nd quarter of 1984 (at actual operating rates) would be altered if exchange rates had maintained the values which prevailed in 1978-79. This table shows the phenomenal extent to which exchange rate fluctations have altered comparative steel costs -- especially in regard to West Germany, France and the U.K. When measured against the Morgan Guarantee real effective exchange rate series, the shifts of exchange rates in the 1980s are an abberation, differing sharply from long-standing patterns and distorting underlying competitive relationships.

TABLE 3
SECOND QUARTER 1984 PRE-TAX COST PER NET TON
(At Actual Operating Rates)

	At 2nd Quarter 1984 Exchange Rates	At 1978-79 Exchange Rates Average	Percent Distortion
U.S.	478.06	478.06	
Japan	447.66	454.05	1.4
West Germany	416.63	481.54	15.6
France	423.11	645.11	52.5
U.K.	397.33	489.52	23.2

Source: WSD, Steel Strategist #9

OTHER INTERNATIONAL COMPARISONS OF EFFICIENCY

The most basic level on which industrial competitiveness can be evaluated is in terms of the efficiency with which inputs are used. Three of the major inputs are labor, energy and capital. Latest data (Table 4) show that the U.S. steel industry ranks with Japanese producers in terms of labor productivity at actual operating rates for carbon steel production by integrated producers. Given the inadequate investment of the U.S. industry, its carbon steel labor productivity represents a solid performance in comparison with the results achieved by foreign industries in newer plants built with government support.

Table 4

LABOR PRODUCTIVITY

(Manhours Per Net Ton Shipped at Actual Operating Rates)

	U.S.	Japan	West Germany	France	U.K.
1976	8.79	10.11	11.12	14.89	19.17
1977	8.95	9.98	12.57	14.26	21.26
1978	8.12	9.55	11.67	12.62	21.56
1979	8.29	8.55	9.85	11.35	18.58
1980	8.31	8.30	9.98	10.14	37.35*
1981	8.07	8.49	9.95	10.24	13.50
1982	7.84	8.07	11.08	10.83	13.35
1983 3Q Avg	6.69	7.82	10.92	11.03	10.63
1983 3Q	6.48	7.28	11.42	11.62	11.31
Annual Rate of Improvement	+1.9%	+2.2%	+2.8%	+3.2%	+3.7%

Source: WSD

* Strike Year

The U.S. advantage would be far less if each industry were able to operate at a high level of capacity. Certainly Japan, which is generally considered the world's most efficient steel industry, would have the best labor productivity at high operating rates. Since 1975, low operating rates have been a serious burden for the Japanese steel industry. Yet potential efficiency is economically meaningless unless demand is adequate to sustain the potential level of performance. If, over a long period, market demand is lower than projections - as has been the case in the world steel industry since 1975, potential efficiency is transformed from a competitive strength into a liability. Persistent excess capacity represents a managerial error, regardless of the potential efficiency of the facilities which are idled. Given the duration of the present crisis in the world steel industry and the persistent under-utilization of capacity, the use of a "standard" operating rate, rather than an actual rate (usually 90%), to describe efficiency is meaningless.

Energy Efficiency

Energy efficiency in terms of Btus per ton shipped, is set forth in Table 5:

Table 5
ENERGY EFFICIENCY

(millions of Btus per net ton shipped)

	U.S.	Japan	West Germany	France	UK
1973	36.9	31.3	35.4	41.9	37.5
1981	35.4	27.9	36.0	36.2	40.4
1983	34.8*	27.4	29.7	30.6	37.7

Source: WSD

* AISI data for 1983 show 24.73 million Btus per ton of steel shipped for all grades. WSD data refer to carbon steel only.

Here the U.S. industry ranks somewhat behind its European competitors and substantially behind Japanese producers. Table 10 describes overall energy usage, regardless of type (coal, electricity, oil, etc.). As the data indicate, improvements in overall fuel efficiency are somewhat difficult to come by; and the principal effect of the energy crisis of 1973 has been a shift in the mix of energy inputs (from petroleum to coal and electricity) rather than a major reduction in total energy usage. The U.S. performance in energy conservation would substantially improve at higher levels of investment, as higher yields, derived from a higher rate of continuous casting, reduce Btus per ton of steel shipped.

Efficiency of Capital Utilization

In the 1960s and 1970s, U.S. industry was substantially ahead of all of its major competitors, with respect to return on total capital employed. It is still far ahead of its European competitors, in terms of pre-tax profit per ton of steel shipped, and since 1976, only slightly behind Japanese producers. The efficiency of capital usage is difficult to measure in physical terms. One measure of capital efficiency is operating rate, or utilization of existing capacity. In this regard, the performance of the U.S. industry since the mid-1970s has on average exceeded that of its major competitors. This is shown in Table 6.

Table 6

CAPACITY UTILIZATION

(Production as % of reported capability)

	U.S.	Japan	West Germany	France	U.K.
1976	80.6	77.1	62.4	75.0	78.9
1977	78.6	68.4	57.3	66.5	71.2
1978	86.6	64.2	60.7	69.7	71.4
1979	95.1	67.4	66.7	71.9	74.6
1980	77.8	65.4	65.1	73.6	39.9
1981	85.7	60.3	62.5	72.0	61.5
1982	54.5*	62.4	54.4	63.2	58.8
1983 3Q Avg	65.4*	61.4	56.3	60.7	72.0
1983 3Q	66.91*	65.8	55.9	57.16	72.21
76-83 Average	78.0	65.8	60.7	69.1	69.8*

Source: WSD

* AISI data, which cover all production not just carbon as in WSD, show that capacity utilization was 48.4% in 1982, approximately 54.5% for 9 months of 1983, and 69.4% in January, 1984.

* strike year of 1980 is excluded from average

Yield

A final measure of physical efficiency is yield (Table 7.)

Table 7

PERCENTAGE YIELD

(shipments/raw steel production, at actual operating rates)

	U.S.	Japan	W. Germany	France	UK
1975	71	74	74	72	72
1976	72	78	75	72	72
1977	72	80	75	72	72
1978	72	82	75	73	72
1979	72	83	75	73	73
1980	73	84	75	74	73
1981	73	85	75	74	73
1982	73	86	76	75	73
1983	76*	86	76	75	75

Source: World Steel Dynamics, Core Reports J and O

*Preliminary

Yields are an important measure of efficiency. According to this measure, the U.S. industry is generally less efficient than Japanese producers. There are several reasons for this. One major reason has to do with differences in product mix, since complex, higher value products inherently entail lower yields. Since the U.S. product mix is more sophisticated than that of its foreign competitors, U.S. yields will necessarily lag behind. More significant, however, is the fact that U.S. yields have been suppressed because of the inadequacy of the industry's cash flow since the late 1960s. This retarded the industry's investment in continuous casting, a technology which greatly improves yields and which became commercially viable on a large scale during the 1970s. Foreign competitors have moved more rapidly to continuous casting, although in many cases (particularly in Europe) internal cash flow has been even lower than in the U.S. In the E.C., governments have provided more than $30 billion to their steel industries over the past 10 years. The comparisons of output by the continuous casting method are contained in Table 8.

Table 8

CONTINUOUS CASTING
PERCENTAGE OF 1983 SHIPMENTS

United States	29.7
Japan	81.4
West Germany	69.6
France	63.3
United Kingdom	46.4

Source: WSD

It is remarkable that through a combination of other efficiencies, U.S. yield is as high as it is, with such a low percentage of continuous casting in the industry . The potential for further reductions in costs, (including energy costs) through a higher casting rate, is, therefore, much higher in the U.S.industry than among its major competitors.

Summary

What do these data tell us about the overall competitiveness of the U.S. steel industry in terms of efficiency? They show that the U.S. steel industry is still relatively competitive, although behind Japan in some respects. If the U.S. is compared only with its European competitors, where the distortions caused by subsidies and trade barriers have been most apparent, the U.S. industry is highly competitive, in two of these three basic measurements of efficiency.

Certainly there is no justification for the view that average practice in the U.S. is inferior to average practice in Europe. Nonetheless, the trends in these data are disturbing. Should they continue, the relative balance of competitiveness will eventually be altered, to the disadvantage of the U.S. industry. Thus, these data also show the necessity of timely and aggressive action now to expand the present level of industry competitiveness.

Labor Costs

Currently, American steelworkers are among the most highly compensated industrial workers in the world. Average employment costs in the steel industry were over $22 at the end of 1983. Many of our steelworkers have been laid off as a result of the steel industry crisis, and the industry will probably never return to the levels of employment prevailing five years ago.

International Labor Cost Comparisons

We have already demonstrated the current high level of U.S. productivity in the production of carbon steel. But substantial advantages in labor productivity can be offset by high employment costs. Employment costs in the American steel industry have had exactly this effect: the U.S. advantage in labor productivity at actual operating rates is offset by high hourly employment costs.

Trends in Employment Costs

The U.S. disadvantage is starkest in terms of hourly employment costs (Table 9). Roughly parallel trends in the growth of employment costs increase the absolute disadvantage for the U. S. steel industry.

Table 9

HOURLY EMPLOYMENT COSTS

(In Dollars, at Actual Operating Costs)

	U.S.	Japan	West Germany	France	U.K.
1973	7.89	4.04	5.63	4.71	2.94
1974	9.29	5.00	6.59	5.29	3.61
1975	10.83	5.54	7.61	7.23	4.56
1976	12.18	5.81	8.04	7.64	4.44
1977	13.44	7.00	9.38	8.48	4.81
1978	14.73	9.44	11.55	10.56	5.93
1979	16.39	9.73	13.55	12.91	6.68
1980	19.06	10.24	14.92	15.38	9.96
1981	20.78	11.55	13.18	12.65	9.56
1982	24.67	10.89	13.27	12.14	9.14
1983 3Q Avg	24.07	11.89	12.91	13.22	8.0
1983 3Q	23.19	11.74	12.22	12.53	7.88

Source: WSD

Steel Employment Costs and the Manufacturing Average

The premium paid to U.S. steelworkers versus the manufacturing average has been widening. Steelworkers all over the world are relatively high-paid workers. This is due to the fact that the steel industry tends to be highly unionized, the work is skilled, and often hot and hazardous. Yet the premium paid to steelworkers in the U.S. during the 1970s increased dramatically (from 133% in 1970 to 175% in 1981), so that it now far exceeds the premium paid in other countries. The divergence between employment costs in the steel industry and the manufacturing average shows more clearly than absolute employment costs the vulnerable position of steelmaking in the U.S.

Industries whose employment costs far exceed the manufacturing average will suffer a competitive disadvantage versus their international rivals. This is now the situation facing the U.S. steel industry. During the 1960s, the premium in U.S. steel employment costs actually decreased and was only marginally above the European average. This relationship broke down in the 1970s. Although the steel premium in Japan approaches that in the U.S., this is misleading. The Japanese data exclude lower-paid contract workers, who make up between 40 and 50% of the steel labor force. Inclusion of this component would likely lower the actual Japanese steel premium to near the European level -- leaving the U.S. in an isolated and highly vulnerable position. Thus, even as the productivity advantage of the U.S. steel industry eroded in the 1960s and 1970s, its employment cost disadvantage increased.

Unit Labor Costs

Unit labor costs are shown on Table 10. These combine productivity and hourly employment cost data to describe unit labor costs for the U.S. steel industry and its chief competitors.

Table 10
UNIT LABOR COSTS
(Dollars Per Ton Shipped at Actual Operating Rates)

	U.S.	Japan	West Germany	France	U.K.
1976	107.03	58.7	93.67	114.93	85.4
1977	120.41	69.79	118.31	122.39	103.4
1978	119.81	89.99	137.77	134.86	129.88
1979	136.17	83.31	134.4	148.04	125.67
1980	158.86	85.17	149.29	156.83	410.79 *
1981	168.0	98.09	131.63	129.86	131.33
1982	194.64	87.99	147.04	132.53	122.42
1983 3Q Avg	161.78	93.0	140.16	146.87	85.20
1983 3Q	150.76	85.5	140.58	156.05	90.78
Annual Rate of Increase	6.4%	7.3%	6.2%	3.5%	-0.2%

* Strike year
Source: WSD

The U.S. industry must, and is now beginning to, reverse the trend resulting in the gradual elimination of its productivity advantage, combined with rapidly increasing employment costs. The continued viability of steel production in the United States and the future of steelworker jobs are now dependent on containing recent trends in employment costs. They are also dependent upon revisions in work rules and operating practices which would boost the industry's rate of productivity growth. Labor and management both share the responsibility for this distortion and each must play a significant role in its reversal.

The steel labor contract, which went into effect in March 1983, represents a step towards eliminating the labor-cost disadvantage of American steel producers. It reduces wages by $1.25/hr., although this reduction will be restored through the life of the contract. The contract also reduces COLA benefits, vacation and paid holiday allowances. For their part, steel firms are committed to investing these savings in existing plants and to extending supplemental unemployment benefits to laid-off steelworkers.

This agreement is an important first step, an indication that both labor and management are committed to strengthening the competitive standing of their industry.

CAUSES OF THE AMERICAN STEEL TRADE PROBLEM

The major causes of America's steel trade problem are the existence of substantial excess capacity abroad, the increase of foreign government control, subsidization and targeting of steel, and generally ineffective U.S. Trade Law enforcement. All of these had a direct effect on the flow of imports into the U.S. market.

Profit Record of Steel Producers

After the boom years of 1973-74, the world steel industry underwent a severe downturn. In part, this reflected overall weakness in the economies of industrialized countries, where growth has been sluggish since 1974, accentuated by the overhang of excess steel capacity on declining demand. The best indicator of the severity of the impact on steel is the profit record of steel producers.* Table 11 presents some data on the post-1974 profitability of major steel firms in the principal steel producing regions of the world (Europe, Japan, and the U.S.). This table clearly shows what has occurred in the world steel industry during this period. European producers amassed losses approximating 15 billion dollars from 1975 to 1980. While Japanese and North American producers earned profits in that period, margins have generally been thin. When steel segment operations alone are considered, West German, Japanese, and U.S. producers incurred operating losses in several of these years.

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* Calculated from data provided by World Steel Dynamics, the only public model based upon statistical data on steel issued by steel industries and their governments. Developing country data is not generally available.

TABLE 11

CONSOLIDATED RETURN ON SALES: NET INCOME/SALES (%)

(major producers)

	1975	1976	1977	1978	1979	1980	1981	1982
U.S.	4.3	3.3	0.4	2.5	2.1	3.0	3.9	-6.8
Japan	0.6	0.9	0.6	1.8	3.3	2.9	1.9	1.5
W. Germany	1.4	1.1	0.1	0.3	0.4	0.6		
France	-15.9	-10.7	-23.5	-14.0	-10.1	-11.5		
UK	-10.8	-3.1	-14.1	-9.4	-17.6	-22.6		
Italy	-4.0	-5.9	-17.6	-13.4	-8.3	-20.4		
Belgium	-7.9	-2.6	-13.9	-10.2	-2.5	-9.4		
Canada	6.0	4.5	4.9	6.2	7.1	7.4		

Source: World Steel Dynamics, "Financial Analysis of International Steelmakers."

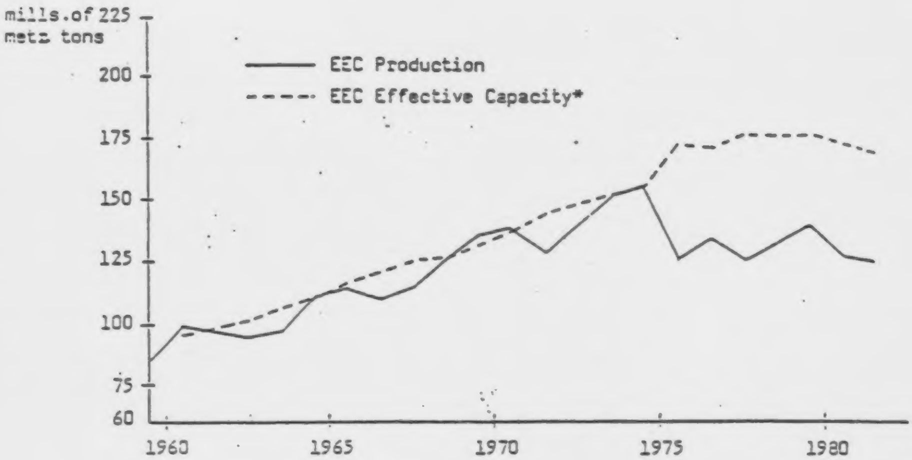
Massive and persistent losses show that the present problems of the world steel industry are structural rather than cyclical. These problems have arisen largely from foreign government actions, yet they have resulted in increased foreign government involvement. Rather than accept the losses in employment and foreign earnings which would result from the bankruptcy or reorganization of steel firms, many governments -- especially in Europe and in developing countries -- have increased their subsidies for steel industries. This has intensified the underlying problems resulting in the politicization of international steel trade and the near breakdown of the market mechanism. There are many causes of this, but the principal cause is the development of excess capacity worldwide, which began in the late 1960s.

European Capacity and Production

The historical trends in output and capacity in the European Community are described in Figure 1. This provides clear evidence of the extent to which capacity expansions accentuated the effects of weak demand for European steel. While European capacity and production maintained a fairly close relationship during the 1960s, they began to diverge sharply after 1975. Since that time, even peak years (such as 1979) have coincided with dangerously low operating rates.

Figure 1

EUROPEAN CAPACITY AND PRODUCTION, 1960-182



* assumed to be 87% of gross, rated capacity.

Source: WSD, Steel Strategist #6 (August, 1982)

The construction of excess capacity was not limited to Europe. Table 2 provides some evidence on the rate of capacity increases in several national steel industries, relating this to the increase in domestic demand.

TABLE 12

CAPACITY VS. CONSUMPTION

	Crude Steel Capacity (million of m. tons)			Apparent Steel Consumption (million of m. tons crude steel equivalent)		
	avg., 1969-70	avg., 1979-80	annual rate of growth (%)	annual rate of growth (%)	avg., 1969-70	avg., 1979-80
Belg.Lux.	19.9	26.8	3.0	-1.6	4.56	3.89
France	25.2	32.3	2.5	-0.6	23.0	21.69
Germany	49.7	68.7	3.3	-0.5	40.98	39.08
Italy	19.5	37.2	6.7	3.0	20.21	27.25
UK*	29.1	28.7	-0.2	-2.1	24.98	20.65
Japan	81.0	156.9	6.8	2.4	67.15	84.90
U.S.	140.5	140.1	...	-0.1	132.95	131.14

*Calculation made for 1978-79 to eliminate effects of 1980 strike.

Sources: U.N. statistics for capacity, OECD statistics for apparent consumption.

This table shows that during the 1970s the major European countries and Japan had growth in capacity exceeding the growth in consumption, but that the United States did not. In almost all other countries, substantial investments were made to increase capacity which domestic markets could not absorb. As a result, many industries, were, in effect, forced to rely on export markets to boost or maintain operating rates.

It now appears that overaggressive expansion on the part of the Japanese steel industry was a serious strategic mistake. The prosperity and efficiency of the Japanese industry has been based on rapid expansion ahead of the market, providing significant economies of scale. Economies of scale quickly turn into diseconomies, however, when operating rates fall. As world steel demand has remained weaker than the forecasts projected in the early 1970s, excess capacity in the Japanese steel industry has continued to be a persistent problem. That industry is now facing cash-flow constraints, relatively high financial costs, and significant physical inefficiencies due to the logistical problems of running large facilities at much lower rates than those for which they were designed.

Overexpansion has led to even more difficult problems in Europe. It is doubtful that firms run by private managers would have pursued the kind of capacity expansion described in Table 12. In Europe, the availability of government funding (either directly or through loan guarantees) and political pressure for expansion were the key elements leading to the boom in steel capacity between 1965 and 1975. Yet, the politicization of investment decisions during that period has been a major cause of Europe's present crisis of excess steel capacity.

In the advanced developing countries, overexpansion of the steel sector has led to a vicious cycle of growing foreign debt, industry losses, government subsidies and unfair trade. Despite falling demand worldwide, the developing world has added some 50 million tons of new capacity since 1975. Since steel industries in the developing world (especially integrated plants) are for the most part government-owned and protected, this has accentuated the world overcapacity problem. It has done so by intensifying competitive pressures in export markets in general, and in particular in the U.S. market. Thus, U.S. steel imports from countries outside the EC, Canada and Japan, which had averaged 3.5 percent of apparent supply in the period 1979-81, rose to 5.3 percent in 1982 and to 7.6 percent in 1983 (including 8.5 percent in the second half of 1983 and nearly 10 percent so far in 1984).

Agreements to Allocate Markets

The drive to export has been linked to a related but contradictory response to the crisis of excess capacity: the effort to restrict imports. The most public examples of strict import restrictions are in Europe. Since the onset of the European steel crisis in 1975, the EEC has sought to coordinate an extensive program of market controls, regulating prices and allocating markets. Viscount Davignon of Belgium, who controls the administration of this EEC program, justified it in the following terms:

> The steel industry is a key factor in our independence; Europe cannot therefore allow responsibility for its steel supplies to pass outside the Community for the sake of the international division of labor.*

By the spring of 1978, agreements had been concluded with all major exporters to the European market, stringently limiting imports into the EEC. These limitations have been regularly renewed and are still in effect. Tied to the drive to boost exports, this led to an increase in Europe's positive steel trade balance by the end of the 1970s, a point which also applies to Japan (see Table 13). In effect, these agreements left much of the world steel market subject to a cartel-like arrangement.

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* A.F. Lowenfeld. Public Controls on International Trade (New York, 1979) p. 285.

TABLE 13

Steel Trade Balance: U.S., Japan, and EEC -- 1971-81
(Millions of net tons)

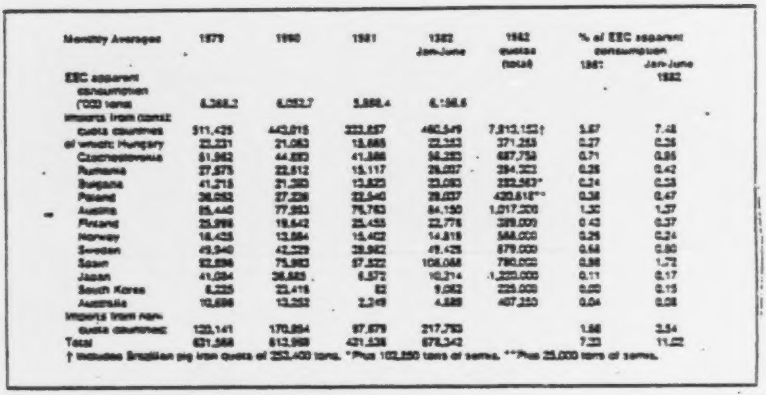
	U.S.	Japan	EEC (9)
1971	-15.48	25.42	16.97
1972	-14.81	22.90	16.18
1973	-11.10	27.07	19.73
1974	-10.14	35.19	29.36
1975	-9.06	31.68	22.87
1976	-11.63	39.44	13.60
1977	-17.30	36.50	18.43
1978	-18.71	33.54	25.97
1979	-14.70	32.11	23.37
1980	-11.39	31.38	19.96
1981	-16.99	29.60	26.72

Note: Positive number represents trade surplus.
Source: AISI for U.S., IISI for Japan and EEC (OECD for 1981)

The extensive network of European quotas is described in Table 14. It is ironic that European steel exporters have criticized as "protectionist" the legal action against subsidized and dumped imports taken by the U.S. steel industry, while at the same time maintaining strict control over imports into their own market. The Japanese, who have a competitive cost advantage against European producers, shipped only about 300,000 net tons into the EEC during 1983. Japanese shipments to the U.S. market in 1983 were 14 times greater.

TABLE 14

EEC Imports, Quotas, and Import Penetration



Monthly Averages	1979	1980	1981	1982 Jan-June	1982 quotas (total)	% of EEC apparent consumption 1981	Jan-June 1982
EEC apparent consumption ('000 tons)	6,268.2	6,052.7	5,888.4	6,156.6			
Imports from const. quota countries	511,425	442,018	333,857	460,549	7,313,123†	5.67	7.48
of which: Hungary	22,231	21,063	15,665	22,353	371,255	0.27	0.36
Czechoslovakia	51,962	44,880	41,866	56,283	687,758	0.71	0.86
Rumania	37,575	22,812	15,117	26,007	394,323	0.25	0.42
Bulgaria	41,218	21,380	13,825	23,080	232,563*	0.24	0.38
Poland	38,052	37,228	22,540	28,037	420,618**	0.38	0.47
Austria	85,440	77,953	78,763	84,150	1,017,330	1.30	1.37
Finland	25,998	19,642	25,455	22,776	289,000	0.43	0.37
Norway	18,425	13,884	15,402	14,818	568,000	0.25	0.24
Sweden	49,940	42,229	39,962	49,425	679,000	0.66	0.80
Spain	92,596	73,980	57,522	106,068	780,000	0.98	1.72
Japan	41,084	38,885	6,572	10,214	1,200,000	0.11	0.17
South Korea	8,225	22,418	82	9,062	225,000	0.00	0.15
Australia	10,698	13,252	2,249	4,889	407,350	0.04	0.08
Imports from non-quota countries	120,141	170,894	97,679	217,793		1.66	3.54
Total	631,566	612,909	431,536	678,342		7.33	11.02

† Includes Brazilian pig iron quota of 252,400 tons. *Plus 102,850 tons of semis. **Plus 25,000 tons of semis.

Source: Metal Bulletin, November 10, 1982

In Japan, there have been similar (if less public) restrictions on steel imports, especially from low cost producers in Korea and Taiwan. Recently a published article appeared in the Japan Metal Bulletin, stating that the Japanese Steel Importers Association (formed in November 1983) had in January "voluntarily agreed" to cut back the amount of steel imports to a level not exceeding 3 percent of the total market.

In developing countries, import restrictions have been even more severe. Argentina, for example, requires import licenses for all flat rolled steel products, and such licenses are almost impossible to get. Many other developing countries rely either on high tariffs or licenses to limit steel imports. In Brazil, the most extreme example of protectionism is the so-called "Law of Similars." It means that anything that is made in Brazil cannot be imported without permission, regardless of the sufficiency of domestic production.

Subsidization and Nationalization

As world steel industry problems intensified, private firms gave way to government control. In late 1978, major steel producers were effectively nationalized in France and Belgium. According to private European steel producers, fully 70% of all the steel companies in Europe are dependent on the state; about half of the EEC's total production is now under direct government control.

The employment effects of steel mill rationalization in certain regions of Belgium and France caused national political concerns. Governments intervened to protect domestic steel producers, representing a camouflaged form of unemployment insurance. Rather than face political unrest, European governments have subsidized continued production in inefficient steel plants. Such practices, however have entailed enormous costs.

Total European subsidies, actual and projected, have been estimated at an incredible 80 billion marks for the period 1975-1985 - over $30 billion even at present exchange rates. Government funds have been devoted not just to covering operating losses; they have alos been applied to modernization and investment - all under the guise of "restructuring." Table 15, below, excerpted from Agence Europe, documents the extensive amount of state aid provided by European governments to their steel industries. The total estimate is approximately $34 billion.

TABLE 15 State Aid for Restructuring
(millions of ECUs)

Country	Aid Notified	Approved	Approved Conditionally	Declared Incompatible
Belgium	4.304	1.721	2.196	414
Cockerill-Sambre	3.648	1.352	2.096	
Denmark	81	81	-	
F.R. Germany	4.314	700	3.614	
Arbed Saarstahl	1.045	664	381	
Hoesch	1.014	92	922	
Kloeckner/Maxhuette	587	31	556	
Krupp	514	3	556	
Peine-Salzgitter	225	-	225	
Thyssen	693		693	
Greece	6	-	-	6
France				
Sacilor and Usinor	7.613	5.501	2.112	
Ireland	231	96	-	135
Italy	10.270	1.661	8.609	
Finsider	6.851	695	6.156	
Luxembourg	340	144	296	
Netherlands				
Hoogovens	514	94	420	
United Kingdom				
British Steel Corp.	5.763	3.089	2.674	
Total	33.636	13.190	19.891	555

6-I&SM. FEBRUARY 1984

The restructuring of the European steel industry has as its publicly announced goal the reduction of capacity to redress the balance between potential supply and demand. Recognition of this need has come fairly late in Europe - after other responses had failed to resolve the crisis. Recently, however, restructuring has been the key word for European planners. Continued government subsidies are now justified as necessary components of restructuring. European producers now justify increased subsidies by a rather peculiar logic: the old subsidies were bad, and future subsidies must be avoided, but present subsidies are necessary. The subsidies now being granted are allegedly designed to "restructure" the European steel industry so that future subsidies are not needed.

With the exception of Britain, however, many European countries are now subsidizing the replacement of inefficient facilities with new ones - with insufficient reduction in capacity. "Restructuring" subsidies will not adjust European production along lines suggested by competitive relationships (which would entail far greater capacity reductions than are occurring), but instead they will ensure that the capacity reductions occur elsewhere - presumably where steel operations and investment are not state-supported.

Unprecedented government involvement, allegedly designed to restructure European steel production on a profitable basis, has instead distorted the market mechanism and propped up inefficient producers for political reasons. The principal victims of such programs - besides European taxpayers - have been the relatively efficient private firms, which are being pushed into bankruptcy by competition from state-supported industries willing and able to sell steel at prices well below their costs of production.

While government involvement in Japan is more subtle, MITI and other agencies are deeply involved in a restructuring program. In general, the Japanese steel industry is reducing large increments of capacity and shifting to a maintenance mode, where investment is designed to raise the efficiency of existing facilities rather than to expand capacity. While Japanese subsidies do not seem to be widespread at this time, the government has controlled raw materials prices (including oil) and management of the adjustment process. As a result, buying and selling cartels have developed in both Europe and Japan; these cartels have even reached some agreements on dividing up other markets.

In countries such as Brazil, Korea and Taiwan - countries which already have significant excess capacity - there are continuing efforts to exapnd capacity based on policies of import substitution and export promotion. Government ownership, control and subsidization of steel is a basic fact of economic life in these countries. In Brazil, Mexico and South Korea government ownership ranges between 68 and 75 percent, and these percentages are all expected to increase in coming years as new government projects come on line. Meanwhile, increasing government subsidies in such countries continue to distort trade and injure U.S. producers. Equally alarming is the fact that our major foreign competitors in Europe and Japan are continuing to provide subsidized financing for their exports of steelmaking equipment to the developing world, yet these same countries severely limit their imports of steel from the plants they help fund.

The Struggle Over Where Retrenchment Will Occur

Until excess capacity abroad is reduced, our steel trade crisis will persist. Government involvement has generally kept the market from determining where capacity reductions should occur. It is the least efficient facilities which should be retired - yet many of these plants are receiving subsidies in Europe and elsewhere. Should these plants survive and more efficient private plants be closed, the net loss to the world economy in terms of efficiency will be substantial. More significant is the fact that jobs and income will be lost in regions which have resisted playing the subsidies game. This is the key factor in the present steel trade problem.

In some ways the U.S. steel industry was better able to cope with foreign excess capacity than its international counterparts - at least until the catastrophic downturn of 1982-83. This provides some evidence of the advantages of a private, market-based industry. The U.S. industry has not expanded its capacity, even though it cannot supply all of its home market in a year of strong demand. Yet in many ways the U.S. steel industry has suffered most from the over-expansion of world steel capacity. Our trade laws have not prevented the U.S. market from being seriously injured by surging imports of unfairly traded steel. The U.S. steel market is the most open major steel market in the world, and U.S. sales are the chief "spoils" in the intense struggle for exports amoung countries with substantial excess capacity. Most significantly, U.S. producers are dependent on private capital markets for funds. Inefficient operations are sustained abroad via government supports, but no such props exist for U.S. firms, regardless of relative efficiency.

As we have noted, the market mechanism in steel has been more or less dismantled outside the United States. As a result, the price information which the market provides is misleading in regard to where capital should be invested, or where retrenchment should occur. Furthermore, the distorting effects of government intervention have been intensified by recent trends in exchange rates.

The messages given by market prices for steel from many foreign sources do not reflect underlying competitiveness of these sources. The surge of imported steel since 1980 stems largely from intervention by foreign governments and from the disastrous effects of an overvalued dollar. If we look behind these factors, it is demonstrable the underlying competitive standing of the American steel industry is still relatively strong. There is clearly no basis for arguing that immutable factors support further massive contraction in the U.S. industry, or that government policies designed to assist the industry cannot reverse its current decline.

Mr. Chairman, there has been no definitive response from a succession of Administrations to the trade distortions we have outlined in this statement. Accordingly, we now urge the Congress to begin the process of returning some equity to the trade in steel by enacting H.R. 5081, the Fair Trade in Steel Act. This legislation would limit steel imports for five years to the average level which occurred in the 1970s, while we further modernize, a level higher today than that allowed by any other advanced industrial country (including the EC as one trading unit). This would be a moderate response of the U.S., Mr. Chairman, to the outrageous conditions we have described affecting world trade in steel.

Mr. RODERICK. If you wish, Mr. Chairman, we will continue by having Mr. Trautlein make his statement.

Chairman GIBBONS. Yes, sir, go right ahead, Mr. Trautlein.

STATEMENT OF DONALD H. TRAUTLEIN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, BETHLEHEM STEEL CORP., ON BEHALF OF THE AMERICAN IRON & STEEL INSTITUTE

Mr. TRAUTLEIN. Thank you, Mr. Chairman.

I am Donald H. Trautlein. I am chairman and chief executive officer of Bethlehem Steel. I welcome this opportunity to appear before your committee and appreciate sincerely your interest in examining the steel trade problem.

I would like to just expand on Mr. Roderick's remarks explaining how steel quota legislation and the carbon and alloy steel 201 petition fit together.

There is a perception by some that our steel industry is a low technology, backward industry that is noncompetitive with producers in other nations. This simply is an error. Furthermore, the assumption that America can maintain its leadership as a major economic power without a strong economic power without a strong domestic steel industry is not only absurd—but I submit to you it represents a very dangerous public policy.

One of the most frustrating problems facing steel executives over the years—a problem which has limited management's ability to plan and invest for the future—has been the industry's dependence on the initiative and dedication for our Government in applying existing trade laws to maintain fairness in steel trade.

The steel industry's experience has been that various circumstances have caused less than full enforcement of our trade laws. The result has been over 20 years of cumulative damages to the industry as it has suffered these failures to enforce trade laws by our own Government's officials. The fact is that our trade laws should be enforced. Members of Congress should tolerate nothing less.

As recently as early 1983 there was great optimism that a large part of our steel trade problem had been dealt with because of the European arrangement and what was then thought to be an understanding between our Government and the Japanese Government on steel trade. Events quickly proved that optimism to be unfounded as Third World countries increased production, importing to American markets at prices sharply below their cost of production.

At Bethlehem we are committed and prepared to take necessary steps to protect our trade interests. By the second quarter of 1983 we were intensifying our discussions as to the need for comprehensive action on steel trade. We met with representatives of Commerce, USTR, steel caucus, and others in authority. In testimony before congressional hearings last July 1 and again September 15, I clearly signaled that Bethlehem was preparing to take decisive action in the trade area.

To our dismay our intensified efforts to promote understanding of the steel trade situation and to achieve timely actions produced essentially no results. Imports from the all-other-countries category in the last half of 1983 amounted to 3.8 million tons, more than double the rate for the comparable period in 1982.

In the meanwhile, import rates from Japan and the EEC started to rise again. As a result, imports' share of apparent steel supply in the last half of 1983 amounted to 22.3 percent, higher than the previous record for any single year.

These imports were at disastrously low prices. Our conclusions were, one, the steel industry will not have the proper opportunity to modernize, rationalize, and become more internationally competitive if the present disregard for our trade laws and the resultant steel market chaos is allowed to continue.

Two, the best way to deal with the issue is through temporary global quotas, product by product and country by country, at a level of 15 percent of apparent supply, for a period of 5 years.

Three, this administration, like past administrations, whether Republican or Democratic, will not deal effectively with the steel trade problem unless it is required to do so.

Under these circumstances we felt obligated to join with the United Steelworkers of America in filing a 201 petition—which asks for the same relief that is in the steel quota bill. It is consistent with and totally complementary to H.R. 5081.

The fact is, we feel it too important to rely solely on either process. We owe it to our employees, our stockholders, our communities, and I sincerely believe our country, to present every available option to our Government to address the steel import problem in a comprehensive manner. The problem must be addressed. It should be addressed now, and it should be addressed comprehensively.

The advantages of the 201 petition are many. In fact, I think our present circumstances fit exactly the situation Congress had in mind when it passed the trade law of 1974.

First and foremost, it does offer the potential for a comprehensive solution. No other kind of trade litigation offers that potential.

Second, it offers the clear potential for quantitative restraints. Even if the present administration were to negotiate individual quantitative restraints with a number of different countries as a result of separate cases, the final total is likely to be unacceptably high because of all the special interests that would enter into the settlement of each case.

The third and final major advantage of the 201 petition is its fixed time schedule. Dealing with a steel trade problem on a case-by-case basis has been a long, expensive, uncertain and unacceptable process.

The industry began addressing the latest surge of unfairly traded steel imports in January 1982. Our problems have become much worse in the intervening 27 months, and a solution is still not at hand. Under the 201 process, hearings on injury and remedy before the ITC will occur in May and June. If the case progresses as we expect it to, the President must render his final judgment as to remedy by September 24. Other legal remedies do not have such limited timeframes.

We are determined to achieve a 15-percent quota on imports for 5 years. We will use that period to modernize and to improve the international competitiveness of the carbon and alloy steel industry. H.R. 5081 would provide necessary relief to the industry. Section 201 offers an equally acceptable alternative.

I believe we have a compelling case for temporary quantitative restraints. I urge you to pass H.R. 5081 this spring.

Thank you.

[The prepared statement follows:]

STATEMENT OF DONALD H. TRAUTLEIN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, BETHLEHEM STEEL CORP.

Thank you, Mr. Chairman, my mane is Donald H. Trautlein. I am Chairman and Chief Executive Officer of Bethlehem Steel Corporation. I welcome this opportunity to appear before the Ways and Means Committee and appreciate your interest in examining the steel trade problem.

Mr. Roderick has just graphically described the causes of the present steel trade crisis and given the reasons why a five year, fifteen percent global limit on imports is essential to give the American steel industry a period of relief during which it can modernize and rationalize its facilities. I would like to expand on his remarks, explaining how steel quota legislation and the carbon and alloy steel 201 petition fit together.

There is a perception by some that our steel industry is a low-technology, backward industry that is non-competitive with producers in other nations. That is in error! Furthermore, the assumption that America can maintain its leadership as a major economic power without a strong domestic steel industry is not only absurd—but represents a very dangerous public policy.

One of the most frustrating problems facing steel executives over the years—a problem which has limited management's ability to plan and invest for the future—has been the industry's dependence on the initiative and dedication of our government is applying existing trade laws to maintain fairness in steel trade.

The steel industry's experience has been that various circumstances have caused less than full enforcement of our trade laws. The result has been over twenty years of cumulative damages to the industry as it has suffered these failures to enforce trade laws by our own government's officials. The fact is that our trade laws should be enforced. Members of Congress should tolerate nothing less!

As recently as early 1983, there was great optimism that a large part of our steel trade problem had been dealt with because of the European Arrangement and what was then thought to be an understanding between our government and the Japanese government on steel trade. (Since then this understanding has apparently turned out to be nothing more than a non-quantified, unilateral assurance by the Japanese government.) For the EC, of course, that mean a privilege to continue to dump products in this market but in specified amounts.

Events quickly proved that optimism to be unfounded as Third World producers increased their flood of steel directed at American markets at prices sharply below costs of production. Steel imports from the countries outside of Japan, the EEC and Canada, which have averaged 3.5 percent of apparent supply in the period from 1979 to 1981, rose to 5.3 percent in 1982, then 6.3 percent in the first quarter of 1983 and 6.8 percent in the second.

At Bethlehem, we are committed to being prepared to take the necessary steps to protect our trade interests. By the second quarter of 1983 we were intensifying our discussions as to the needs for comprehensive action on steel trade with representatives of Commerce, USTR, the Steel Caucus and others in authority. Generally, Administration policymakers agreed that the steel trade problems was becoming more serious but there was neither a plan nor a commitment on how to deal with it on a satisfactory basis.

On July 1 and again on September 15 last year, I clearly signalled that Bethlehem was preparing to take decisive action in the trade area. I testified before Congressional hearings, described the steel trade problem in detail, showed how it had deteriorated sharply to date in 1983 and called for an American Steel Policy, including a 15 percent quota on steel imports for a period of five years. Copies of the materials for this testimony were distributed widely—to every member of Congress, to every member of the Cabinet Council on Commerce and Trade, and to others in the Administration with steel trade policy assignments.

To Bethlehem's dismay, our intensified efforts to promote understanding of the steel trade situation and to urge timely action produced essentially no results. Imports from the "all other countries" category in the last half of 1983 amounted to 3.8 million tons, more than double the rate for the comparable period in 1982. In the meanwhile import rates from Japan and the EEC started to rise again. Imports' share of apparent steel supply in the second half of 1983 amounted to 22.3 percent—

higher than the previous record for any single year. And these imports were at disastrously low prices. For example, the landed value for imported carbon plates from all sources in 2H83 was $170 per ton lower than it had been in 4081, a decline of 36 percent in just two years.

Bethlehem's conclusions were:

1. The steel industry will not have the proper opportunity to modernize, rationalize and become more internationally competitive if the present disregard for our trade laws and the resultant steel market chaos is allowed to continue unchallenged.
2. The best way to deal with the issue is through temporary global quotas, product by product and country by country, at a level of 15 percent of apparent supply, for a period of 5 years.
3. This Administration, like past Administrations whether Republican or Democratic, will not deal effectively with the steel trade problem unless it is required to do so.

Under these circumstances we felt obligated to join with the United Steelworkers of America in filing a 201 petition—asking for the same relief that is in the Steel Quota Bill. In that regard, we view the 201 Petition as totally consistent with and complementary to H.R. 5081, the Fair Trade in Steel Act of 1984. The problem is simply too important to rely entirely on either process. We feel we owe it to our employees and stockholders to present every available option to our government to address the steel import problem in a comprehensive manner. But the problem must be addressed—it must be addressed now—and it must be addressed comprehensively!

The advantages of the 201 petition are many. In fact, the steel industry's present circumstances fit exactly the situation Congress had in mind when it passed the Trade Law of 1974.

First and foremost, the 201 petition offers the potential for comprehensive solution—dealing with all products from all countries for a period of up to five years. That's the kind of releif the industry desperately needs and deserves. No other kind of trade case offers that potential.

Second, it offers the clear potential for quantitative restraints. Such restraints, if imposed, should add to a total percentage that makes sense in terms of steel trade policy. I fear that even if the Administration were to negotiate individual quantitative restraints with a number of different countries as a result of separate cases the final total is likely to be unacceptably high, because of all the special interests that would enter into the settlement of each case.

The third and final major advantage of the 201 Petition is its fixed time schedule. Dealing with the steel trade problem on a case by case basis has been a long, expensive, uncertain, and unacceptable process. The industry began addressing the latest surge of unfairly traded steel imports in January 1982. Our problems have become even worse in the intervening 27 months and a solution is still not at hand. Under the 201 process, hearings on injury and remedy before the ITC will occur in May and June. If the case progresses as we expect it to, the President must render his final judgment as to remedy by September 24. Other legal remedies do not have such limited time frames.

In filing the 201 Petition, both the United Steelworkers of America and Behtlehem are determined to achieve a 15% quota on imports for five years. We will use that period to modernize and to improve the international competitiveness of the carbon and alloy steel industry. This is the same commitment that the industry has made in support of the Quota Bill.

In closing, the present trade situation is untenable!

H.R. 5081 was designed to provide necessary relief to the industry. Section 201 of the Trade Act of 1974 offers an equally acceptable alternative. We have a compelling case for temporary quantitative restraints. We will use the time of quotas to move forward with a dramatic revitalization of the American steel industry. Thank you for your interest and attention.

Chairman **Gibbons**. Thank you, sir.

Mr. Chenault.

STATEMENT OF JAMES E. CHENAULT, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, LONE STAR STEEL CO., ON BEHALF OF THE AMERICAN IRON & STEEL INSTITUTE

Mr. **Chenault**. Mr. Chairman, thank you.

For the record, I am James E. Chenault, Jr., president and chief executive officer of Lone Star Steel Co. I am pleased to be a member of this panel and to appear before you this morning to discuss the effects of subsidized and dumped steel on the U.S. steel industry.

Let me begin by giving you a brief picture of my company and its operations. Lone Star is rather unique in the steel industry. Our operations are entirely specialized in the production of steel pipes and tubes, primarily casing and tubing for use in oil and gas wells. Our product is often referred to as oil country tubular goods, or simply OCTG.

Despite our relatively small size compared to some of the other companies represented on this panel, Lone Star has been consistently among the top three domestic producers of OCTG. We operate an efficient, fully-integrated plant located in northeast Texas and situated in close proximity to our markets.

Our products are distributed throughout the world for specialized applications. Since 1975, we have reinvested over $500 million to continuously update and improve our mill facilities. This represents approximately 8 percent of our net earnings over that period since 1976. We had plans for further expansion which were canceled primarily because of continued high levels of imports.

In short, we have done everything we can to make ourselves efficient and competitive in world markets. Yet, each year we find ourselves more and more squeezed out of our traditional markets by what is subsidized or dumped foreign steel selling at prices up to 50 percent, or slightly more, below our prices.

Let me cite a few statistics which underline the seriousness of the problems in the OCTG markets, which represent the lion's share of our business. In 1978, imports accounted for approximately 19 percent of the U.S. OCTG market. By 1981, at the height of the drilling boom, imports had risen to 37 percent, and they continued to rise in 1982 and 1983, while usage and domestic shipments dropped precipitously. The drilling boom was over.

This continued increase in imports caused an inventory buildup unprecedented in the history of the OCTG industry and was accompanied by what we consider to be predatory and destructive pricing practices. In February 1984, the latest month for which the Commerce Department has statistics, imports of OCTG have taken 62 percent of the U.S. market.

How has this flood of imports affected the U.S. industry? In our own case, it was the reason we found it necessary to close our mill in Texas and lay off over 4,000 of our employees. We have experienced much lower drilling activity than we see today, but have never faced the onslaught of targeted imports as we have been and continue to experience.

Lone Star is one of the largest single employers in east Texas. Our closing has had a devastating effect on the local economy. We suffered a loss of over $100 million in 1983. Our local purchases declined by $235 million. Our employment costs dropped $85 million. I have seen the human side of the problem, as well—the despair and the broken homes of men and women who have been with us for 15 to 20 years and now stand in line to buy with food stamps. Although a resurgence of drilling activity has allowed us to move gradually to 40, even 50 percent of capacity, those slight gains could easily be wiped away by continued imports as we noticed in February.

Mr. Chairman, even at the 40- to 50-percent operating level, we continue to operate at a loss. Clearly, our current international trade laws and policies are not adequate to address this problem—and in some cases have actually been counterproductive.

An example is the pipe and tube arrangement which was concluded together with the nontubular product U.S.-EC arrangement in late 1982. These arrangements were to remedy the injury being caused by subsidized steel imported from the EC. In the case of pipe and tube, imports were to be limited to their 1979-81 average.

A specific enforcement mechanism was established for carbon steel products other than pipe and tube. This procedure has, to a large extent, apparently successfully reduced the imports of carbon steel other than pipe and tube.

But this success has been our misfortune. Tonnage of this steel has been diverted to pipe and tubes where there was no specific enforcement procedure. Since 1982, EC shipments in our product line of OCTG have more than doubled their 1979–81 average share while we have pleaded with the Commerce Department to enforce the arrangement.

Quite simply, the Europeans have ignored the arrangement as it relates to pipe and tube.

Finally, earlier this month, after more than 1½ years of assurances that "next month" you will see imports drop—always the same story, always, "Wait one more month"—Commerce officially agreed to seek "consultations" with the EC to determine what can be done to obtain compliance by the EC. By the time anyone gets around to actually doing something, the arrangement will have become history; and we will have been buried by the deluge diverted by our Government. And, unfortunately, the EC represents only a part of the problem.

Mr. Chairman, I would like to conclude on one final point. I have spent my entire working life in the steel industry—a greater part in oil and gas. Since 1980, as president and chief executive officer of Lone Star, I have seen tremendous changes in the steel industry. I recall when it was regarded as the backbone of the American economy.

Today, I see an industry facing unprecedented world attack by dumped imports. Since 1975, our total work force has drastically declined. Quite likely, it will decline still further until we are able to come to grips with the import challenge.

Speaking for Lone Star and, I believe, for most of the rest of the industry, I am ready to face this challenge. We have the technology. Our work force has the drive and determination. At Lone Star, we have already invested hundreds of millions of dollars to modernize.

What we seek is the ability to accept this challenge on a fair and equal footing with our foreign competitors. We can compete against other companies; we cannot compete against governments. Either we act now, Mr. Chairman, to address these problems, or we condemn the American taxpayer to forever bear the cost of the foreign export of their unemployment to our shores.

In my opinion, H.R. 5081, which would establish quantitative limitations on imports of steel mill products, is a solution to this problem. We need these limitations globally, and we need them now. Necessary safeguards from the Government's and the public's standpoint are provided for in the bill. With the 5-year respite, it will allow us to recover from the injury we have suffered. We can once again establish ourselves as the strong, efficient competitors we have always been.

Mr. Chairman, this concludes my prepared remarks. I would try to answer any questions that you or the other Members may have.

[Attachments to the statement follow:]

OCTG SHIPMENTS TO THE U. S. MARKET

1974-1984

(Thousands of Net Tons)

Period	Net U. S. Shipments	Imports	Total OCTG Shipments to the U.S. Market	Imports % of Total
1974	1,914	109	2,023	5%
1975	2,147	217	2,364	9
1976	1,509	219	1,728	13
1977	2,265	487	2,752	18
1978	2,492	591	3,083	19
1979	2,173	457	2,630	17
1980	3,478	1,036	4,514	23
1981	4,113	2,389	6,502	37
1982	1,606	2,180	3,786	58
1983	616	661	1,277	52
10yr.Total	22,313	9,346	30,659	27%
Most Recent 3 Years	6,335	5,230	11,565	45%
Jan. '84	78	97	175	55%
Feb. '84	90	146	236	62
2-Month Total	168	243	411	59%
	(1)	(2)	(3)	(4)

Sources: Column (1) American Iron and Steel Institute.
Column (2) U. S. Department of Commerce.
Column (3) U. S. Department of Commerce.
Column (4) Lone Star Steel Company calculation.

Note: 1983 & 1984 Statistics from DOC reflect revision of Customs TSUSA for OCTG.

Prepared by: Lone Star Steel Company
April 23, 1984

OIL COUNTRY TUBULAR GOODS IMPORT STATISTICS *

	JANUARY 1984				FEBRUARY 1984				MARCH 1984				APRIL 1984			
	Imports	% App. Supp.	Imports YTD	% YTD App. Supp.	Imports	% App. Supp.	Imports YTD	% YTD App. Supp.	Imports	% App. Supp.	Imports YTD	% YTD App. Supp.	Imports	% App. Supp.	Imports YTD	% YTD App. Supp.
Denmark, Belgium Luxemburg	45	-			3,013	1.3	3,058	.7								
France	1,915	1.1			2,073	.9	3,988	1.0								
Germany	6,287	3.6			24,592	10.4	30,879	7.5								
Greece	31	-			5,728	2.4	5,759	1.4								
Ireland	-	-			-	-	-	-								
Italy	17,554	10.1			22,639	9.6	40,193	9.8								
Netherlands	45	-			369	.2	414	.1								
United Kingdom	1,934	1.1			1,036	.4	2,970	.7								
Total EEC[1]	27,811	15.9			59,450	25.2	87,261	21.2								
Japan[2]	38,527	22.1			58,788	24.9	97,315	23.7								
Canada	5,670	3.2			6,691	2.8	12,361	3.0								
Korea	8,419	4.8			7,699	3.3	16,118	3.9								
Brazil	2,546	1.5			2,182	.9	4,728	1.2								
Spain	1,851	1.1			3,890	1.6	5,741	1.4								
Austria	-	-			-	-	-	-								
Sweden	1,293	.7			547	.2	1,840	.4								
Argentina	3,116	1.8			1,341	.5	4,457	1.1								
Mexico	3,426	2.0			4,996	2.1	8,422	2.1								
Total[3]	26,321	15.1			27,346	11.6	53,667	13.1								
Others[4]	4,157	2.4			114	-	4,271	1.0								
TOTAL IMPORTS(1+2+3+4)	96,816	55.5			145,698	61.7	242,514	59.0								
Apparent Supply	174,530				236,055		410,585									

*Source: Department of Commerce Trade Data Summary Pipe and Tube Products. 1983 & 1984 statistics reflect revisions of Customs TSUSA Categories for OCTG

OIL COUNTRY TUBULAR GOODS IMPORT STATISTICS*

O.C.T.G. IMPORTS - 2000# TONS BY COUNTRY OF ORIGIN GIVING PERCENT OF APPARENT SUPPLY (IMPORT PENETRATION)

	1982 Imports	% I.P.	4-Yr. Tonnage	4-Yr.% I.P.	1983 Imports	% AC
Denmark, Belgium Luxemburg	35183	1.0	102269	0.6	6,443	0.5
France	30276	0.8	51848	0.3	21,628	1.7
Germany	263998	7.0	782463	4.5	50,188	4.0
Greece	67070	1.8	163860	0.9	10,518	0.8
Ireland					--	--
Italy	278733	7.4	577230	3.3	141,108	11.1
Netherlands					16	0
United Kingdom	72425	1.9	94968	0.6	3,787	0.3
E.E.C. Total[1]	747685	19.7	1772638	10.2	233,688	18.4
Japan[2]	1046368	27.6	3275636	18.8	269,323	21.1
Canada	75197	2.0	276899	1.6	27,077	2.1
Korea	105732	2.8	159268	0.9	35,722	2.8
Brazil	53734	1.4	98442	0.6	15,703	1.3
Spain	51621	1.4	150774	0.8	23,252	1.8
Austria	37914	1.1	42686	0.2	2,491	0.2
Sweden	51621	1.4	61409	0.4	7,138	0.6
Argentina	15100	0.4	40240	0.2	15,372	1.2
Mexico					11,452	0.9
Total[3]	375819	9.9	789478	4.5	138,207	10.9
Others[4]	9990	0.4	222139	1.3	10,222	0.8
TOTAL	2179862	57.6	6059841	34.8	651,440	51.2
Apparent Supply	3785863		17431722		1,273,438	

Note - 1979 through 1982 Data - AISI

Note - 1983 and 1984 statistics from DOC reflect revisions of Customs TSUSA Categories for OCTG

OIL COUNTRY TUBULAR GOODS IMPORT STATISTICS*

O.C.T.G. IMPORTS - 2000# TONS BY COUNTRY OF ORIGIN GIVING PERCENT OF APPARENT SUPPLY (IMPORT PENETRATION)

	1979 Imports	% I.P.	1980 Imports	% I.P.	2-Yr. Tonnage	2-Yr. % I.P.	1981 Imports	% I.P.	3-Yr. Tonnage	3-Yr. % I.P.
Denmark, Belgium Luxemburg	3016	0.1	1719	--	4735	--	62351	1.0	67086	0.5
France							21572	0.3	21572	0.2
Germany	5920	0.2	37963	0.8	43883	0.6	474582	7.3	518465	3.8
Greece	14094	0.5	30591	0.7	44685	0.7	52105	0.8	96790	0.7
Ireland										
Italy	9050	0.3	52608	1.2	61658	0.9	236839	3.6	298497	2.2
Netherlands										
United Kingdom			500	--	500	--	22043	0.3	22543	0.1
E.E.C. Total[1]	32080	1.2	123381	2.7	155466	2.2	869492	13.3	1024953	7.5
Japan[2]	398653	15.2	737753	16.4	1136446	15.9	1092822	16.8	2229268	16.3
Canada	3698	0.1	40087	0.9	43785	0.6	157917	2.4	201702	1.5
Korea	--	--	1861	0.1	1861	0.0	51675	0.8	53536	0.3
Brazil	4122	0.2	--	--	4122	0.1	40586	0.6	44708	0.4
Spain	252	--	9536	0.2	9788	0.1	89365	1.4	99153	0.7
Austria	--	--	--	--	--	--	4772	0.1	4772	--
Sweden	252	--	9536	0.2	9788	0.1	--	--	9788	--
Argentina	4063	0.2	5300	0.1	9363	0.1	15777	0.2	25140	0.2
Total (3)	8324	0.3	61020	1.3	69344	.9	344315	5.3	413659	3.0
Others[4]	16227	0.6	113981	2.5	130208	1.9	81941	1.3	212149	1.6
TOTAL	455274	17.3	1036135	22.9	1491409	20.9	2388570	36.7	3879979	28.4
Apparent Supply	2629590		4514176		7143766		6502093		3645859	

Note - Only data available - A.I.S.I. - Not Dept. Commerce

Chairman GIBBONS. Thank you, Mr. Chenault.

Mr. Regelbrugge.

STATEMENT OF ROGER R. REGELBRUGGE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, GEORGETOWN INDUSTRIES, INC., ON BEHALF OF THE AMERICAN IRON & STEEL INSTITUTE

Mr. REGELBRUGGE. Thank you, Mr. Chairman.

I am Roger Regelbrugge, president and chief executive officer of Georgetown Industries, Inc., formerly Korf Industries, Inc., of Georgetown, SC. Our company was founded by Willy Korf, who brought radical new technological changes in the production of wire rod in this country.

However, despite our advanced technology, an erosion of domestic market prices, primarily caused by imports from a host of foreign sources, forced a complete reorganization of our company. As a consequence of that reorganization, Mr. Korf personally is no longer involved with Georgetown Industries, and we have sold our modern Texas wire rod mill as well as the Midrex direction reduction process, which was the most advanced direct reduction marketing and engineering firm in the world.

And maybe in thinking of our own situation it would be of importance, Mr. Chairman, that the committee understands that we built the steel mill in South Carolina in 1969. That is 15 years ago. But in those 15 years, the mill has been modernized and updated in three or four major programs, the last one taking place in early 1982, and which cost $30 million.

As a logical consequence of these programs, we were originally able to capture, particularly in the Southeast of the United States, our share of the market. That success caused us to build the Texas steel mill, based on our forecasts of the market's development. Others invested in wire rod mills for similar reasons.

Our investments have always been premised on two or three major considerations. The most important premise is that productivity, particularly in a minimill, can be improved to such an extent that labor costs compared to foreign labor costs can be eliminated as a primary or as an important factor. Our labor cost is based on 2 hours of man hour content in a ton of steel produced. That represents approximately the freight costs for any foreign producer to ship his steel to the United States.

With that productivity we needed only the second assumption—a low cost producer can assume in a free market economy that he will be able to get his market share and survive. We have been that low cost producer. We have gained market share from time to time, only to see it dwindle and get lost through imports at prices which neither we nor anybody else could sustain.

So the second assumption, then, assumes that market share will depend on whether we are playing by the rules that this Government and this Congress has over the years established for our industrial development and that importers of the product we produce will play by the same rules.

Going through our history with trade laws, Mr. Chairman, we started in 1977 with our first filing of antidumping complaints against European companies. We did that then at the urging of the

Carter administration which suggested we use the trade laws to find the remedy that we sought, because importers were not playing by the rules.

With our help and support, the trigger price mechanism came into being, and for a while it looked like maybe it might be successful. The Government itself, with introduction of the preclearance mechanism, I think helped with the demise of the system after it had been suspended and reinstated.

Beyond that, of course, it didn't take the trading companies around the world too terribly long to figure a way in which they could circumvent the system, and our disclosures to the Government were not sufficient to bring the Government to act against those violations of the system or to maintain the trigger price mechanism in the way it was meant to be maintained.

So, as we lost the trigger price mechanism, we again had to resort to filing various complaints which we have filed over the years. We probably as a small company have filed at least 30 of these complaints. We have not found the relief that we believe we were entitled to or that the law specifies that we should, in fact, have been getting.

What are the problems with this process? The problem is, first of all, that it is time consuming. And in the specific case of wire rod, it is even more difficult because there are more than 30 different countries shipping wire rod into the United States. You can win a case against one, but the next one will take its place in the marketplace.

It should be recognized that wire rod is sold mostly by import houses who, as soon as they see one of their sources disqualified, will just go to another source and the act doesn't change.

The second problem we have found is that time and again politics entered, in our judgment, into the decisions made by various administrations with respect to trade law enforcement. We don't believe that that should be the case, but we have found it prevalent in our system.

Third, the Government has never shown any consistency in trade law enforcement. Over an extended period of time, there has been a helter-skelter approach to trade law policy which has had the unhappy effect of undermining one of the basic assumptions that we relied on in building efficient mills; namely, that an efficient, modern minimill with costs that are better than almost anyone else's in the world can survive in this free market economy, which we proclaim we have.

In conclusion, Mr. Chairman, while I have personally in the past opposed quotas and similar accommodations in trade, I have always based my opposition on the premise and on the belief that trade laws would be vigorously and consistently enforced. I have been at this now for 6 years personally, and our experience with administration of these laws over those years leads me to the conclusion that congressionally mandated steel trade regulation is needed.

Mr. Chairman, we now need this quota bill.

Thank you.

[The prepared statement follows:]

STATEMENT OF ROGER R. REGELBRUGGE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, GEORGETOWN INDUSTRIES, INC.

Good morning Mr. Chairman and Members of the Committee. I am Roger Regelbrugge, President and Chief Executive Officer of Georgetown Industries, Inc., (formerly Korf Industries, Inc.). Our company was founded by Willy Korf who brought radical new changes in the production of wire rod, a basic steel product, to this country beginning in the late sixties. However, despite our advanced technology and erosion of domestic market prices primarily caused by imports from a host of foreign sources, forced a complete reorganization of our company. As a consequence of that reorganization, Mr. Korf is no longer involved with Georgetown Industries and we have sold our modern Texas wire rod mill as well as the Midrex direct reduction process to rationalize our assets. We are confident now of our capacity and ability to continue as a modern, efficient steel maker, but it has been at a very large cost. This industry cannot, however, rely solely on restructuring which will not be successful if public policy ignores the trade problem.

The electric furnace based wire rod mill we operate in South Carolina was completed in 1969. Built on a coastal site to take advantage of transportation economies, this mill was the first in the United States to continuously cast billets for subsequent rolling into wire rod. Over the years, the mill has been constantly modernized to take advantage of technology advances and today employs virtually all of the state of the art technology for making wire rod. After completion, this mill was successful in capturing market share from imports and became an alternative source to independent domestic producers of wire products. Based on expectations of demand, a second state of the art mill was built in Beaumont, Texas, which shipped its first wire rod in 1976. Nor were we alone in such investment. A competing mill was constructed by Raritan River Steel Company which went on stream in 1980. In addition, Atlantic Steel in Atlanta, Georgia, and a number of other companies have built capacity, based on electric furnace, continuous casting technology, to supply the domestic wire rod market.

The investments we have made, and I am sure our competitors share this philosophy, have been premised on several key assumptions. The most important premise is that if productivity can be improved through significant investments in efficient and technologically advanced equipment, then any labor cost advantage of foreign producers can be neutralized. At present, we believe the total labor per ton produced can realistically be expected to be less than two hours in a modern, efficient wire rod mill. At current labor rates, this means that U.S. labor costs will about equal the cost of ocean freight, Customs clearance and U.S. import duties on shipments from foreign suppliers. The second assumption is that the high cost of investment in new facilities both for the equipment and technology and the cost of capital, could be recovered in our domestic prices if there is a vigorous and effective enforcement of the United States trade laws. This assumption, however, has not been realized. Let me resort to a historical survey.

In 1974, imports accounted for approximately 50 percent of all domestic noncaptive wire rod shipments. It was that market that our company hoped to capture through technologically advanced production and, in fact, we were successful until 1977 when there was a sudden and dramatic drop in the price of imports, primarily from Europe, to about $10 cwt, or less than half the 1974 import price. After President Carter urged resort to the trade laws, we filed antidumping cases which were subsequently withdrawn following the implementation of the Trigger Price Mechanism. Under the TPM, prices recovered and domestic mills captured an increasing share of the domestic noncaptive market for wire rod which coincided with the introduction of new sources of supply from Raritan, among others. In fact, by 1980 prices had recovered to approximately $17 cwt (although still less than 1974 prices) and imports supplied only 23.6 percent of near record domestic consumption.

We were understandably distressed when the TPM was suspended in early 1980 only to be reinstated later on that year. Even more distressing was the resort to "legalisms" after reinstatement that led to the preclearance mechanism. While this concept perhaps had philosophic justification, it created a two tier pricing environment which inevitably led to widespread violations of the trigger prices and increasing industry frustration with the program.

Coincident with the decline in enforcement of the TPM was a rapid and steady decline in prices which became most pronounced in 1981 and continued into 1982. This decline was accompanied by an acceleration in the percentage of domestic consumption accounted for by imports. By January of 1982 when the TPM was again suspended, prices had fallen to the $12 cwt range, largely because of import competition, and imports were taking a larger share of the market.

We were then confronted, of course, with the problem of again resorting to trade law petitions which we have, in fact, undertaken. While we have been largely successful in winning cases, and there has been some recovery in the market, imports continue to take a significant share of the domestic consumption: in January 1984, wire rod imports were over 150,000 tons—the highest level in any month since 1974. While we will continue to pursue our cases, there are structural and theoretical problems with the current system that this Committee should bear in mind.

First, there is the problem that cases are time consuming and expensive. Moreover, because wire rod is manufactured in numerous countries, it is necessary to bring a large number of complaints in order to achieve any measure of relief. Wire rod imports are not controlled by the exporting company but rather by trading companies that operate in the United States and search out alternative foreign sources whenever a foreign supplier is forced to price farily because of trade law relief. While we would like to feel we have found a solution in the trade laws, I sometimes fear that we are more like Sisyphus.

Secondly, while this Committee has emphasized the need to take trade law out of politics or politics out of trade law, we have concern that this is still a problem despite Charlie Vanik's admonition when the 1979 Act was under consideration. At that time, he forcefully stated that the purpose of Congress was to "take away these decisions [in trade cases] from the silk hat crowd in the diplomatic department." [1] However, we still have the uneasy feeling that political judgments rather than legal and factual analysis often carry the day. We saw this in our petitions involving countervailing duties from Czechoslovakia and Poland which the Commerce Department has preliminary rejected on grounds that appear to have been motivated by considerations other than the merits of our cases.

In fact, as our briefs have demonstrated, the subsidies we alleged from Czechoslovakia and Poland were very conventional export subsidies of the type listed in the annex to the Countervailing Duty Code. Our allegations required no complex analysis of credit-worthiness or desired rates of return (which the Department has undertaken in many cases) but rather a simple recognition that differential treatment for exports is a subsidy and has so been recognized by this Congress since 1980 and by much of the world community.

Third, I would make a plea for consistency in U.S. trade policy and enforcement of the trade laws. Since 1977, when we first filed our cases under the antidumping law, we have seen an array of remedies proposed, withdrawn, improved, modified, and occasionally just ignored. Over an extended period of time this Helter Skelter approach to trade law policy has had the unhappy (for us) effect of undermining the second lag of our assumption: namely that efficient modern production and the consequent costs incurred would be economically viable particularly where we were able through productivity to neutralize any advantage our foreign competitors may have in labor costs per hour.

In conclusion, while I have in the past opposed quotas and similar accommodations with trade, this has been premised on the belief that the trade laws would be vigorously and consistently enforced. Our experience with the administration of these laws over the last seven years leads me to the conclusion that congressionally mandated steel trade regulation is now needed.

Chairman GIBBONS. Dr. Lena.

STATEMENT OF ADOLPH J. LENA, CHAIRMAN, ADVISORY COMMITTEE, SPECIALTY STEEL INDUSTRY OF THE UNITED STATES, AND CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER OF AL TECH SPECIALTY STEEL CORP., ON BEHALF OF THE AMERICAN IRON & STEEL INSTITUTE

Mr. LENA. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I am Adolph Lena, chairman of the advisory committee of the Specialty Steel Industry of the United States and chairman of the board and chief executive officer of the AL Tech Specialty Steel Corp. in Dunkirk, NY. AL Tech is also a member of the American Iron & Steel Institute.

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[1] Cong. Record, July 10, 1979, at H.5551-5552.

I appreciate the opportunity to appear before you today to describe the current status of the specialty steel industry's efforts to deal with the import problem. On March 17, 1983, I also appeared before you and provided our recommendations for changes in the trade laws. We are pleased that you have moved ahead with amendments to strengthen those laws.

Today I will give you a summary of the efforts of the domestic specialty steel industry over many years to deal with the import problem.

The Specialty Steel Industry of the United States is a nonprofit corporation and trade association representing 17 domestic producers of tool and stainless steel. The names and locations of the firms represented in the Specialty Steel Industry of the United States are contained in exhibit A to my written testimony. The 17 producers account for about 90 percent of the U.S. production of specialty steel products.

The specialty steel industry is separate and distinct from the carbon steel industry. Specialty steels include stainless and tool steels, which account for approximately 1.5 percent of the tonnage and about 10 percent of the dollar value of domestic shipments of steel. Our high technology products are frequently produced in custom-ordered quantities for use in goods that demand special durability, hardness or resistance to heat, corrosion and abrasion. Because of these unique properties, specialty steels require special processing equipment and expensive alloying ingredients, and generally utilize from 7 to 15 times more man hours per ton than ordinary carbon steel.

President Reagan noted in his November 16, 1982 decision on our section 301 case that:

> The Specialty Steel Industry is an efficient, technologically up-to-date and export-oriented branch of the steel industry. Its output is used in a wide range of demanding applications critical to an industrial economy * * *.

Specialty steel is vital to the national defense and our domestic economy. It is a strategic material absolutely critical to our country.

My industry has devoted substantial time and resources in recent years to deal with the problems of specialty steel imports. Those efforts began over 10 years ago when we initiated and won antidumping cases involving French stainless steel wire rod products and Swedish stainless steel products.

In 1975, we filed a section 201 case before the U.S. International Trade Commission. Following an affirmative ITC decision, President Ford imposed quantitative restraints on specialty steel imports. In 1977, President Carter reviewed the Specialty Steel Import Restraint Program. The ITC held hearings and recommended a continuation of the program.

On January 18, 1978, President Carter decided to continue the import restraint program. In 1979, the ITC held hearings on my industry's request to extend the import limitation program. The ITC voted 2 to 2 to continue the import limitation, but President Carter decided to phase it out. All import restraints were ended as of February 14, 1980.

Following the expiration of the import limitation program, we requested inclusion of all specialty steel products in the trigger price mechanism. Although the Commerce Department did not include specialty steel in the TPM, the Department established a "surge mechanism" program early in 1981. This program proved totally ineffective, and late in 1981 we filed a case under section 301 of the Trade Act of 1974, as amended, with the U.S. Trade Representative. Following the initiation of that proceeding, we filed seven additional antidumping and countervailing duty cases with the Department of Commerce and the ITC. With one exception, we have had affirmative decisions from both the Commerce Department and the ITC.

In November 1982, the President issued a written decision in the section 301 case we filed the year before. In his decision, the President directed the USTR to request the ITC to conduct an expedited investigation under section 201 of the Trade Act of 1974.

In addition, the President directed the initiation of multilateral and bilateral discussions aimed at the elimination of all trade distortive practices in the specialty steel sector. He did this in recognition of the trade distorting practices on both the importing and exporting side of our business. In other words, the President recognized that much of our problem is rooted in unfair trade practices such as dumping and foreign government subsidization.

By the same token, he also recognized that we are an export-oriented branch of the steel industry and that foreign government barriers to our exports prevent us from taking full advantage of our competitiveness internationally.

As you know, we won our 201 case which was initiated by the President. Last July, an import relief program was implemented. That program provided for quantitative restraints on stainless steel bar, stainless steel rod and alloy tool steel. It also provided for increased tariffs on the flat-rolled products, stainless steel sheet, strip and plate. The President's program is designed to be in effect for 4 years, with the import restraint levels growing each year and the added tariffs being reduced each year.

Obviously, we have had extensive experience with the trade laws. Probably more than any other industry, we have attempted to deal with the import problem by using the procedures available to us.

Attached as exhibit B to my testimony is a chronology of the specialty steel industry's efforts to deal with the import problem since we filed antidumping cases in 1973. In the last couple of years, we have filed eight antidumping and countervailing duty actions, the section 301 case, and supported the section 201 case initiated by the President.

In addition, we are participating in review of outstanding dumping orders under section 751(a) of the Tariff Act of 1930. Furthermore, we have several appeals pending at the U.S. Court of International Trade, contesting administrative agency decisions under the antidumping and countervailing duty laws.

Under the President's section 201 decision last year, an annual review of the 201 import relief program is required. The first annual review will get underway soon.

You will probably not be surprised to learn that within a few months after the program went into effect, foreign governments began to call for its termination. This is particularly true of the Europeans, who have raised the issue twice in recent OECD Steel Committee meetings, the last only 3 weeks ago.

Mr. Chairman, with all my years of coming to Washington, I know how the game is played. Yet, I am still enraged by the ludicrous request by the Europeans to terminate this program prematurely. We have proven them guilty of dumping. We have proven them guilty of subsidization. We have proven that we have been seriously injured under the tests of U.S. and international law. We have always said that we are modern, efficient producers, and the President has confirmed that. Yet, foreign producers and their governments do not even have the decency to permit us to recover from the serious injury they have caused.

I might add, in spite of the fact we have shown and proven dumping, in the case of the 201, the Europeans and Canadians demanded compensation as a result of the import relief program given the specialty steel industry, and that compensation was provided to them.

Let me suggest that they first get their own houses in order. End the subsidies. Reduce overcapacity. Stop dumping. Compete with us on a fair basis. Only then will their requests have merit.

Termination of the earlier 201 import relief program, which was in effect from June 1976 to February 1980, resulted in tremendous surges of imports to unprecedented levels from 1981 through 1983. Termination of the current relief program, without correction of the basic problems I have described, will simply expose us once again to the severe injury we have suffered.

We in the specialty steel industry believe the U.S. Government has a responsibility to us to ensure that we will not be subject to the continued unfair conditions that have resulted in serious injury to us. I say the U.S. Government has a responsibility because our trading problems are caused by foreign governments. We have never objected to fair competition from private foreign producers who operate under the rules of free enterprise. We certainly do object to foreign competitors who survive year after year of losses only because of Government handouts.

Let me also emphasize, Mr. Chairman, that at the same time we have the responsibility to continue to maintain our international competitiveness. We are doing that. We are making major commitments to capital investment and research and development. But, in order to carry out these programs, we need the full period of import relief provided by the President's decision.

In our section 201 case, we stressed the need for 5 years of import relief. The President granted 4 years, and even this is under attack now by foreign governments. We were also disappointed that the President imposed tariffs rather than quantitative limitations on flat-rolled products, which constitute by far the majority of the sales of the products covered.

We believe many countries are simply offsetting these tariffs with additional subsidies. Furthermore, the scope of our section 201 case did not cover all specialty steel products. Stainless steel pipe and tubing and stainless steel wire, both product lines suffering from very high levels of imports, were not covered. The quota bill does cover these products. Therefore, we strongly support the Fair

Trade in Steel Act, which will provide us the certainty needed to carry out vital capital investment plans which many of our companies have underway.

Believe me, after this program expires, we do not want to have to come back again with another 201 case. In order to avoid that, our Government should take the following actions during the pendancy of the current 201 import relief program: One, work aggressively for the reduction of excess production capacity worldwide; two, work for the elimination of foreign government subsidies; three, effectively enforce the U.S. international trade laws, including the initiation of antidumping and countervailing duty cases by the Government itself; four, work for the elimination of tariff and nontariff barriers to our exports; five, enact the Fair Trade in Steel Act.

In closing, Mr. Chairman, let me express my appreciation for the support you and members of your subcommittee have provided to the specialty steel industry.

Thank you.

[Attachments to the statement follow:]

EXHIBIT A

NAMES AND LOCATIONS OF THE FIRMS REPRESENTED IN THE SPECIALTY STEEL INDUSTRY OF THE UNITED STATES

The Specialty Steel Industry of the United States is a nonprofit corporation and trade association representing 17 domestic producers of tool and stainless steel. These producers account for about 90 percent of U.S. production of specialty steel products. The names and addresses of these producers are as follows:

Allegheny Ludlum Steel Corporation
2000 Oliver Building
Pittsburgh, PA 15222

Al Tech Specialty Steel Corporation
P.O. Box 152
Dunkirk, NY 14048

Armco Inc.
P.O. Box 1697
Baltimore, MD 21203

Braeburn Alloy Steel Division
Continental Copper & Steel Ind., Inc.
Lower Burrell, PA 15068

Carpenter Technology Corporation
P.O. Box 662
Reading, PA 19603

Columbia Tool Steel Company
Lincoln Highway & State Street
Chicago, IL 60411

Crucible Specialty Metals Division
Colt Industries, Inc.
P.O. Box 977
Syracuse, NY 13201

Cyclops Corporation
Cyclops Building
650 Washington Road
Pittsburgh, PA 15228

Eastern Stainless Division
Eastmet Corporation
P.O. Box 1975
Baltimore, MD 21203

Guterl Special Steel Corporation
P.O. Box 509
Lockport, NY 14094

Jessop Steel Company
Washington, PA 15301

Jones & Laughlin Steel Inc.
3 Gateway Center
Pittsburgh, PA 15263

Joslyn Stainless Steels
P.O. Box 630
Fort Wayne, IN 46801

Latrobe Steel Company
Latrobe, PA 15650

Republic Steel Corporation
410 Oberlin Avenue, S.W.
Massillon, OH 44646

Teledyne Vasco
P.O. Box 151
Latrobe, PA 15650

Washington Steel Corporation
Washington, PA 15301

EXHIBIT B

SPECIALTY STEEL INDUSTRY OF THE UNITED STATES
Suite 308 / 1055 Thomas Jefferson Street, NW / Washington, D.C. 20007 (202) 342-8450

CHRONOLOGY OF SPECIALTY STEEL IMPORT ACTIONS

1973:	Filed and won antidumping cases against French stainless steel wire rods and Swedish stainless steel plates.
1975:	
July 16	American specialty steel producers and the United Steelworkers of America filed a petition under the "escape-clause" provisions of the 1974 Trade Act seeking relief from a flood of steel imports, which threatened the future of the American specialty steel industry and the security of specialty steelworkers' jobs.
October 28-31	Public hearings held by the U.S. International Trade Commission.
1976:	
January 16	International Trade Commission determined imports have been a "substantial cause of serious injury" to the domestic specialty steel industry; the Commission recommended quantitative limitations.
June 14	Import limitations on certain specialty steels (tool steels; stainless steel sheet, strip, plate, bar and wire rod) went into effect. Ford Administration negotiated an agreement with Japan and set quantitative limitations on other foreign nations which declined to negotiate. Import limitations for each year -- beginning June 14 -- set as follows: 1976 - 147,000 tons 1977 - 151,500 " 1978 - 155,900 "
1977:	
May 24	President Carter announced plans to review the specialty steel import-restraint program.

1977: (continued)

September 7	International Trade Commission held public hearings; subsequently, recommended extension of restaints.

1978:

January 18	President Carter issued decision to maintain restraints on specialty steel imports for duration of initial three-year period.
November 30	Specialty steel industry and United Steelworkers of America jointly filed for three-year extension of existing import restraints.

1979:

March 6	International Trade Commission held public hearings and, subsequently, recorded a tie (2-2) vote on whether to extend import restraints.
June 12	President Carter directed that specialty steel limitations be phased out over eight-month period; all import restraints to be lifted beginning February 14, 1980.

1980:

February 13	Specialty steel import limitations expired.
February 15	USWA and Specialty Steel Industry of the United States requested Administration to include all specialty steels in Trigger Price Mechanism (TPM).
March 21	Administration suspended TPMs for all steel products prior to any action to cover specialty steels.
July 31	USWA and Specialty Steel Industry of the United States urged President to take action to restrain imports, noting that specialty steel imports increased 29% in the first five months of 1980 vs. 1979 - with some key products up more sharply.
September 30	USWA and Specialty Steel Industry requested President Carter to include specialty steels in Trigger Price Mechanism (TPM) -- which the Administration was to restore for carbon steels October 21, 1980.
November 10	Department of Commerce sent report about specialty steels to President Carter.

1981:

January 8	Department of Commerce established "surge mechanism" to restore dumping and other unfair import practices affecting specialty steels.
December 2	USWA and Specialty Steel Industry stated that the "surge mechanism" has proved ineffective and filed "Section 301" case with Office of the United States Trade Representative. The action cites massive government subsidies to foreign specialty steel producers in Austria, Belgium, Brazil, France, Italy, Sweden, and the United Kingdom.

1982:

January 12	USWA and Specialty Steel Industry filed with USTR additional information about subsidies - setting this date (1/12/82) as official date of "Section 301" case.
February 17	Countervailing-duty petition filed with Commerce Department by eight specialty steel producers covering stainless bar and rod products from Spain.
March 1	USTR accepted "Section 301" petition to curb unfair specialty steel imports from Austria, France, Italy, Sweden, and the United Kingdom. Petitions against Belgium was not accepted; but, USTR expressed interest in further subsidy information for review. Petition against Brazil was not accepted because this nation has agreed to discontinue its export subsidies.
April 12	Specialty Steel Industry of the United States filed new evidence of Belgian-government subsidization and requested USTR to undertake an investigation under "Section 301".
April 14	USTR held public hearings regarding "Section 301" petition against Austria, France, Italy, Sweden, and the United Kingdom.
April 23	Antidumping petition filed with Commerce Department by eleven specialty steel producers and United Steelworkers of America covering stainless steel sheet and strip products from West Germany.
May 5	Specialty Steel Industry called upon Congress to enact legislation requiring quantitative limitations on specialty steel imports for five years.

1982: (continued)

May 10	Antidumping petition filed with Commerce Department by eleven specialty steel producers and USWA covering stainless steel sheet and strip products from France.
May 13	USWA and Specialty Steel Industry sent letter to President Reagan requesting personal meeting with him regarding specialty steel crisis.
June 3	ITC issued unanimous preliminary finding that the domestic workers and industry have been injured by imports of stainless steel sheet and strip products from West Germany (antidumping case) and stainless bar and rod products from Spain (countervailing duty case).
June 16	Seven specialty steel companies filed countervailing duty case with Commerce Department covering stainless bar and rod from Brazil.
June 17	USWA and Industry sent second letter requesting meeting with President Reagan.
June 18	ITC issued unanimous preliminary finding that five French companies are injuring American industry and workers with imports of stainless sheet and strip products (antidumping case).
June 23	USWA and Industry filed petition with USTR under Section 301 charging Belgium with subsidizing specialty steel for U.S. market.
July 30	USWA and Industry filed two trade cases covering tool steel with Commerce Department: a countervailing duty case against Brazil and an antidumping case against West Germany.
July 31	ITC issued unanimous finding that domestic workers and industry have been injured by imports of subsidized Brazilian stainless bar and rod.
August 6	Industry, shocked and disappointed, rejected proposed settlement of trade issues with EEC negotiated by Commerce Department.
August 9	USTR accepts "Section 301" petition charging Belgium with subsidizing specialty steel for U.S. market.
September 13	ITC issued unanimous findings that U.S. workers and industry have been injured by imports of tool steel from Brazil (countervailing duty case) and West Germany (antidumping case).

1982: (continued)

October 7	Industry filed countervailing duty case with Commerce Department covering stainless flat rolled steel from the United Kingdom.
November 15	Commerce found Spain subsidizing stainless bar and rod shipments to the United States.
November 16	Responding to the industry/union 301 petition, President Reagan directed (1) an expedited 201 investigation with respect to stainless plate, rod, bar, sheet, and strip and tool steel; (2) multilateral and/or bilateral discussions aimed at eliminating trade distortional practices; and (3) monitoring of imports of specialty steels subject to the 201 investigation.
November 22	ITC issue preliminary unanimous finding that flat rolled products from United Kingdom are injuring American industry and workers (anti-dumping case).
November 30	Commerce Department preliminarily found West German steel companies dumping stainless sheet and strip in the U.S.
December 6	Commerce Department preliminarily found French steel companies dumping stainless sheet and strip in the U.S.
December 13	Appeal noticed with U.S. Court of International Trade by industry contesting Commerce Department affirmative determination on Spanish bar with regard to Olara.
December 15	ITC issued final injury determination on imported Spanish bar and rod products (countervailing duty): unanimous finding of injury regarding rod, negative finding of injury regarding bar.
December 29	Commerce Department preliminarily found Brazil subsidizing tool steel shipments to the U.S.

1983:

January 3	Commerce Department issued countervailing duty order on Spanish rod.
January 10	Commerce Department preliminarily found West German steel companies dumping tool steel in the U.S.

1983: (continued)

January 18	Appeal noticed with U.S. Court of International Trade by industry concerning ITC negative determination on Spanish bar.
January 27	Commerce Department suspends investigation of subsidized Brazilian stainless bar and rod under terms of suspension agreement with the Government of Brazil.
February 7	ITC suspended investigation of subsidized stainless bar and rod from Brazil.
February 9-10	ITC held public hearing on section 201 investigation concerning stainless steel and alloy tool steel to determine question of injury.
February 10	Commerce Department preliminarily found that imports of flat rolled products from United Kingdom were being subsidized.
February 22	Industry filed requests to continue investigations into subsidized Brazilian stainless bar and rod with the Commerce Department and the ITC.
March 14	Commerce Department suspended investigation of subsidized Brazilian tool steel under terms of suspension agreement with the Government of Brazil.
March 14	ITC suspended its investigation into Brazilian tool steel exports to the U.S.
March 22	Industry filed requests to continue investigations into subsidized Brazilian tool steel exports to the U.S. with the Commerce Department and the ITC.
March 24	ITC issued affirmative injury determination in the section 201 investigation.
April 5	ITC held public hearing to determine remedy recommendations regarding the section 201 investigation.
April 20	Commerce Department issued final affirmative determination that exports to the U.S. from the United Kingdom of stainless steel sheet, strip and plate were being subsidized (19.31 percent margin).
April 25	Commerce Department issued a final affirmative determination that exports of stainless steel sheet and strip from France were being dumped in the U.S. (margins of 2.9 - 6.1 percent on sheet; 3.9 - 14.8 percent on strip).

1983: (continued)

April 27	ITC announced remedy findings and recommendations in the section 201 investigation. Two of the three commissioners recommended 3-year quantitative restrictions beginning January 1, 1983, based on a 10-year representative period (1972-82), for stainless steel sheet and strip, stainless steel plate, stainless steel bar, stainless steel wire rod, and alloy tool steel. Exempted articles were: razor blade steel, band saw steel, chipper knife steel, certain very specialized stainless steel sheet (first 6,000 short tons only).
May 2	Commerce Department issued final affirmative determination that exports of West German stainless steel sheet and strip to the U.S. were being dumped (margins of 6.5 - 7.8 percent on sheet; 1.5 - 4.7 percent on strip).
May 6	ITC findings and recommendations in the section 201 case forwarded to the President.
May 9	Commerce Department issued final affirmative decision that Brazilian bar and rod shipments to the U.S. were being subsidized (15.44 percent margin; 16.26 percent export tax).
May 27	Commerce Department issued final affirmative determinations on two tool steel investigations: the West German dumping case (margins of 0.93 - 18.41 percent; 7.06 percent average), and the Brazilian countervailing duty case (18.7 percent margin; 19.83 percent export tax).
June 2	ITC voted on three investigations resulting in the following final injury determinations: French sheet and strip (dumping--unanimous affirmative determination), West German sheet and strip (dumping--unanimous affirmative determination), and United Kingdom sheet, strip and plate (countervailing duty--unanimous affirmative determination on plate, negative determination on sheet and strip).
June 14	ITC voted on final injury determination on Brazilian bar and rod countervailing duty investigation--the result was an unanimous affirmative determination.
June 22	Commerce Department issued antidumping order for West German sheet and strip.

1983: (continued)

June 23	Commerce Department issued antidumping order for French sheet and strip, and countervailing duty order for U.K. plate.
July 1	ITC voted on the two tool steel cases resulting in the following final injury determinations: West German tool steel (dumping--unanimous affirmative determination), and Brazil (countervailing duty--unanimous affirmative determination). Because of the suspension agreements arrived at between the Government of Brazil and the U.S., final countervailing duty orders were not issued regarding exports to the U.S. of Brazilian bar and rod and tool steel, despite the affirmative Commerce and ITC determinations.
July 5	President announced findings and recommendations in the section 201 case. It included a 4-year program of digressive tariffs for flat rolled products (sheet and strip, and plate) and 4-year global quotas on bar, rod, and alloy tool steel.
July 19	President announced the actual levels of tariff increases and quotas relative to the section 201 investigation effective for all articles covered by the determination entered into the U.S. or withdrawn from warehouse on or after July 23, 1983, and before the close of July 19, 1987.
July 25	Commerce Department issued antidumping order for West German tool steel.
August 10	Appeal filed with U.S. Court of International Trade by industry contesting Commerce Department's affirmative determination on U.K. sheet, strip and plate with regard to margins.
August 11	Appeal filed with U.S. Court of International Trade by industry contesting ITC's negative determination on U.K. sheet and strip and margins on U.K. plate.
August 23	Appeal noticed with U.S. Court of International Trade by industry contesting Commerce Department's affirmative determination on West German tool steel with regard to margins. Case pending before CIT.

1984:

February 28	Industry appeals on Spanish bar consolidated by Court of International Trade. Order effecting consolidation suspended the ITC appeal pending resolution of the Commerce appeal.
March 8	U.S. Court of International Trade decision to dismiss U.K. sheet and strip part of complaint and leave intact part of U.K. plate appeal.

Chairman GIBBONS. Thank you, Dr. Lena.

Before we go to the discussion part of this, let me make one administrative announcement. Mr. Williams, president of the United Steel Workers, must return to Pittsburgh before we will be able to get to him today, and we will therefore hear his testimony at a later date, at his earliest convenience.

Mr. FRENZEL. Mr. Chairman, I have a question on that. Do we have another hearing on our schedule at this time?

Chairman GIBBONS. Yes, we do have one scheduled for next week.

Mr. FRENZEL. For the administration witnesses?

Chairman GIBBONS. Yes, for administration witnesses. As soon as we get vacant days, we will schedule more.

Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

I would like to thank the panelists for some very valuable testimony.

Mr. Schulze unfortunately had to leave early but he asked if I would ask one question of the panel on his behalf.

There have been a lot of efforts and talk in the last few years about productivity and more investment from or for productivity. He is curious to know what the results of that has been.

Mr. RODERICK. The productivity in the American steel industry has historically been good compared to our foreign counterparts, and it has been accelerated in recent years.

The latest data that we have, Mr. Pease, which goes through about the third quarter of 1983, I think, is quite interesting. These are man-hours per net ton shipped. They are true for all these different countries.

For the American steel industry, it was about 6.48. That is about 6⅕ man-hours per ton shipped. For Japan, it was 7.3.

In other words, we are more efficient in the use of labor than Japan. We use fewer man-hours.

It is substantially less than Germany. Germany was 11.4. France was 11.6. The United Kingdom is 11.3.

I think that you are going to see by the time 1984 ends, I think you will see these numbers reduced very substantially by the American steel industry and the American steel worker, and I think that we will widen the gap over these other countries. I think you will see the greatest improvement in productivity in the American steel industry taking, say, a 4-year period, 1980 through the end of 1984, than has ever occurred in the steel industry in this country or any other country of the world.

So we are making tremendous progress and that is coming through better technology, more decisive management, commitments by the steel workers to improve certain work practices, and a very willing worker which the American steel worker always has been.

Chairman GIBBONS. Would you yield for a point of clarification?

Mr. PEASE. Surely.

Chairman GIBBONS. Mr. Roderick, those are very impressive figures on productivity. If you mentioned the source, I missed it. Could you cite the source of those figures?

Mr. **Roderick**. The source of the numbers are not in the testimony, but I believe they are from a gentleman, and he uses a whole series of sources, Mr. Chairman, Peter Marcus. He has probably the broadest universe and broadest exposure to this foreign-type data of anyone in the United States. Probably he and Father Hogan have the greatest quantitative data base for the world's steel industry because since they are not a member of the industry, they don't have competitive and antitrust constraints in gathering it.

We think Peter has done a good job in collecting it. He uses official sources both in Japan and West Germany or any other place, as he does here. So we think these numbers are accurate, and from our own data that we have used historically, from what I would call published sources, looking at them historically, his data has proven to be quite accurate.

Chairman **Gibbons**. I thank you for yielding.

Mr. **Pease**. I am pleased to yield, Mr. Chairman.

Could any of you gentlemen tell me how the period of 5 years was chosen for the bill?

Mr. **Roderick**. Yes, I think we could each comment on that. The 5-year period when we talk about modernization, as you know, to build any sort of—to commit, to engineer, to build almost anything in the steel industry—whether it is a caster, rolling mill, blast furnace—you are talking about cycles of a minimum of about 3 years.

So what we are really saying is that you should give us a couple years to improve cash flow and then give us time to in effect get the product of that cash flow into the form of engineering and finished mill facilities. We think a 5-year cycle for that type generation, excess or additional cash generation, and implementation, we think is a reasonable period of time to sort of complete an overall cycle.

So it was not an arbitrary selected time. I am sure many, given their druthers, would have said 7 years, some opponents would like a short time like 2 years, which we think would be very ineffective. I think 5 years is a reasonable judgment but a constrained one as to what truly is necessary from the standpoint of getting all the modernization in place.

Don, would you respond?

Mr. **Trautlein**. I would only add that that is consistent with the maximum period of relief provided under the filing of a 201 petition which is 5 years.

Mr. **Pease**. All right.

Mr. **Lena**. If I can comment from the specialty steel industry point of view, in our discussion with ITC during the 201 proceedings, we recommended 5 years for several reasons. One is the investment cycle Dave and Don referred to, but the other is—and I emphasize and I think the specialty steel industry can be looked upon really as an example of what the effect of quotas are because we have had them before and we have them now and I know there is concern about pricing—but the fact is, after the quota period was over, the Labor Department made a study that showed that price increases in specialty steel when the quotas were on were substantially less than the rate of inflation during that time period. So it is not a certainty that simply because quotas are going in, we are all going to gouge everybody in the world.

Getting back to the 5-year period issue, I think the most important outcome of this latest set of trade proceedings is the recognition now on the part of the Government that the specialty steel industry is a modern competitive industry and there are reasons for it. But we are.

Our problems really are rooted in unfair trade practices by foreign producers and foreign governments. Unless that problem is solved, any quota relief simply becomes a temporary one. You can't compete.

If we are now a modern, low-cost producer and we are losing markets because of unfair trade practices, simply giving 5 years when we are a low-cost producer now won't solve the total problem.

But there is I think a much greater awareness throughout the world of the overall steel problem. Nobody in the world is making any money on steel. There are efforts throughout the world, at least in certain parts of the world, in Europe, Japan, and so on, of restructuring.

The problem fundamentally is overcapacity. If what the foreign producers are saying is true—namely that they are restructuring and eliminating obsolete facilities, and there are a lot of obsolete facilities in Europe in the specialty steel industry—if they are serious about eliminating that and they have a timetable to eliminate subsidizes which were supposed to end by 1987, but it has now been stretched out, then it seemed to us that a 5-year period would allow the other countries to finish their restructuring and whatever we want to do in our country.

But third, I think it is extremely important, that is for the U.S. Government within the next 5 years to face the reality of international trade today.

You know, we sit around and hear about how competitive we have to be. There are two types of competitive factors. One is internally on what we can do; but the other is the international trade situation and what we face in our free enterprise system with the rest of the world.

It isn't just steel. I was impressed earlier when Congressman Gibbons says, well, he is getting a bunch of industries coming to him now. To me that should give you some message in terms of an overall problem.

Hopefully, within the 5-year period the subject of unfair trade practices, deficiencies in the trade laws addressed by this Congress, it won't be done by any administration, so the point is that after 5 years we would have the opportunity to compete on a fair trade basis. I have enough faith in Americans and American business people that if you do that, we will find a way to compete and if in the end we can't, we deserve what is happening to us.

But I don't believe it will happen to us.

Mr. **Pease**. Well, thank you very much.

As you heard from my questions earlier, I am very much concerned about the steel industry and I want it to be strong.

I have particular empathy as some of you gentlemen mentioned this afternoon, for the workers in the steel industry who lose their jobs. There is a tragic human dimension to lack of sales in the steel industry. I see it every week in my district office of Loraine, OH, as steel workers come in who have been out of work for 2 years, lost medical benefits, are losing their homes, and running into all kinds of psychological problems and family problems and so on.

So I am supportive of your efforts to gain some time to modernize the industry. I guess my concern is that the time and the resources be used for that purpose so that the end of the 5-year period produces a competitive industry.

Along that line, Mr. Roderick, I want to direct some questions to you.

You are, at least were, the largest employer in my congressional district until these recent hard times came upon us. I am sure you have been asked a dozen times about the Marathon Oil situation.

You have been quoted as saying that you were going to make United States Steel Corp. a profitable corporation whether or not it makes any steel, and I think you are a custodian for shareholders of United States Steel Co.; you have an obligation to make a profit. That is what American big business is all about.

It seems to me as we look down the next 5 years, and you and the directors of the company make decisions about where to invest money, you are going to find more profitable areas to invest than steelmaking. You just bought another oil company. And there are other oil companies around.

So what is it that can cause the steel workers of my area to feel that United States Steel will invest in steelmaking capacity in the next 5-years rather than in the ancillary or even nonconnected activities?

Mr. RODERICK. Congressman Pease, I think we can answer that question rather quickly.

We, in the United States Steel Co., are made up of three segments: We have a steel segment; we have an oil and gas segment; then we have a miscellaneous manufacturing segment.

We really don't transfer cash or cash flow from one segment to the other. In other words, each of those individual segments, all the cash that they generate, if they have investment opportunities available to them, they in effect are privileged, let's say, to in effect invest it back into that sector.

Now, what we have done—for example, you just said we bought another oil company. Well, we did but in effect Marathon Oil out of their capital budget, out of their cash flow, bought another oil company. Out of their cash flow. No corporate funds went into it. Net corporate borrowing went into it. Nothing came out of the steel sector in order to achieve it.

If we go back—and I don't like to pick short periods, I think longer periods are more representative—but what we have done in our steel sector in the United States Steel which ought to be a comfort to our steel workers to a degree, since 1970, the United States Steel has taken all the cash that we have generated in steel, all of the cash—forget the dividends—all the cash we have generated in steel, and we have plowed it all back into steel facilities, every penny.

Now, in addition, during that period that wasn't enough to even do the modernization that we have been able to accomplish such as during their period of time some up at Lorraine that you are thoroughly familiar with. What we had to do in addition during that period of time of 15 years, we went out and borrowed for our steel sector another billion and a half dollars of corporate debt to put into our steel sector.

So we are deeply committed to our steel sector, and under this bill there has to be, let's say, reassurance and absolute reassurance given that any existing cash flow will be reinvested back into the steel sector from that sector. And, in addition, any additional cash flow that results from the benefits that we think will flow from this trade legislation, that also would flow back to the steel sector.

So we are clearly with this commitment—I think the chairman said earlier, since you are already doing that, that that really is not adding any icing to the cake. But it really is, Mr. Chairman, for the simple reason when you begin to deal with this import abuse, the cash flow in the steel industry is going to increase because we will have greater market participation; we will have greater efficiency in use of our facilities; and therefore, we will flow more back into our steel industry with this bill than we would if we do not have it.

So I think that legislatively we would be committed to do it and historically we have already done it.

Mr. PEASE. Thank you, Mr. Roderick.

As I recall a few years ago when you bought Marathon Oil Co. for $6 billion, you borrowed a good deal of that but you also had on hand a little over $2 billion in cash that was part of that deal.

Mr. RODERICK. That is correct.

Mr. PEASE. I assume the $2 billion in cash was not generated from your oil division since you didn't have an oil division at that time.

Where did that $2 billion of cash come from? Did that come from the steel sector?

Mr. RODERICK. No, it did not. Not one penny of it.

As a matter of fact, it was during that same period of time we were borrowing for our steel business. What we really did was very simple, and we sold during that period of time, if you recall, we had the sale of Sohio of about $700 million. We sold some of our coal. We have 150 years of coal and we thought we could part with a little of it. We sold our cement division to a company in Germany. We sold excess real estate that we have, some in Florida, Mr. Chairman, and through asset sales in our nonsteel sector—keep in mind we have had nonsteel and United States Steel all the way back to 1901—by selling things that were outside of our steel sector, we in effect created the front-end capability of buying Marathon and then we borrowed about two-thirds of the price.

The interesting thing about it, Mr. Pease, which I think is not generally understood and it is understandable why it would not be, all of that debt has been assigned to Marathon. Marathon is servicing all of that debt and Marathon must repay all of that debt.

So it is just very simple. We are a business that has various segments and we run them as individual segments. We don't flow a lot of cash between one or the other. We make them stand on their own. We think that is a good policy.

Mr. PEASE. Mr. Chairman, I think we have to vote.

Chairman GIBBONS. We are going to come back. We have to go vote. We have only a limited number of minutes now.

I want to apologize to each of you for having eaten in front of you and having consumed a little liquid up here, but with my schedule today, I am afraid if I didn't eat here, I might lose a pound or two.

Let's go vote and be right back.

[Recess.]

Chairman GIBBONS. We will resume, ladies and gentlemen.

Mr. PEASE. Mr. Chairman, I have a number of questions I would be tempted to ask, but I think I will ask just one more.

I know other members of the committee have questions as well and the chairman has an obligation this afternoon.

Mr. Roderick, I was very pleased to note that United States Steel is now in the black in the most recent quarter, I guess, and especially pleased to note that you were even in the black by a little bit on your steelmaking operations.

I wonder if you could tell the committee what your projections are over the 5-year period of the quote for capital investment within the steelmaking sector of your company.

You said you would commit the cash flow from the steelmaking sector to new investment in this steelmaking facility. What do you see as a profit picture and the investment picture over the next 5 years? And if you could, relate that to what you think you really need to spend in order to be fully competitive at the end of that 5-year period.

Mr. RODERICK. As you know, recognizing last year that we could not modernize some of our facilities due to lack of cash flow, we, in effect, shut down permanently 5 million tons, about 15 percent of our capability because we just recognize we would not have the cash flow to ever modernize adequately those facilities and make them competitive.

As we currently, the last several years, our capital expenditures have been running quite high. I think last year they were about $7, $8 million in the steel sector. I think if you add up, I think they were equivalent to the next two or three companies combined in 1983. It was because we were finishing up a major job at our Fairfield, AL, pipemill.

I would say that using AISI data, that we figure we are about a billion and a half dollars of cash flow short in the industry from doing a modernization job at the rate that we think it should be done.

Mr. SCHULZE. Per year?

Mr. RODERICK. Per year. That would be about $7.5 to $8 billion over that period of time.

You can sort of view United States Steel as about 20 percent of that at any given time. So, therefore, we would be investing probably between $5 and $6 million without this bill; and we will probably be investing somewhere in the neighborhood of an additional $200 million plus per year with this bill. That is quite substantial, because that difference can make a total difference in some cases.

For example, $200 million a year by our company alone would mean that five major facilities could be modernized and kept process competitive during that period of time. It means two or three additional casters, maybe one additional blast furnace, one additional coke plant. So the need for that additional cash flow is readily, readily apparent. And since we are committed to put it back in, I think I would say that cash flow should improve somewhere around 20 to 25 percent with the bill.

Mr. Schulze. Thank you very much.

Thank you, Mr. Chairman.

Chairman Gibbons. Mr. Frenzel.

Mr. Frenzel. Thank you, Mr. Chairman.

Thank you, gentlemen, for splendid testimony. A number of things about your bill and your testimony bother me. I am going to ask my questions all in a string and any and all can comment on them either now or for the record later.

The first one deals with the question most recently raised by Mr. Pease. That is the amount of investment and whether it will be adequate for the future.

Before I got here this morning, I am told Mr. Downey referred to a Congressional Budget Office report which is in draft form and has not been presented. None of you have a copy of it.

I would ask at this time unanimous consent that when that is made public, that the witnesses all—not just including these witnesses—have a chance to react to it as they wish.

Chairman Gibbons. Without objection, so ordered.

Mr. Downey. Will the gentleman yield? I thank the gentleman for pointing that out. Also, I apologize to the committee as I did not read the report that it said it is for background and not for public release. I doubt very seriously whether its conclusions are likely to change.

Mr. Frenzel. I got a little different instructions than you did. I think the numbers are embargoed because they are not supposed to be accurate. The conclusions I think are not embargoed.

Your protocol was perfect, Mr. Downey.

Mr. Downey. I thank the gentleman

Mr. Frenzel. At any rate, I am going to re-read a couple of those conclusions or paraphrase them. One is the quota. The quota will not generate sufficient revenues to increase investment to the levels the industry claims are needed to restore competitiveness.

Indeed, it is doubtful that any feasible import restrictions could by themselves reverse the industry's decline. That is just a tease.

I don't expect you to answer that now unless you want to. Probably it would be more appropriate when you saw the numbers displayed to put a response on the record.

That has been a problem to me. There is no reason to go ahead with this unless the Congress is certain that it will put the steel industry on the road to recovery.

Again, it is far too expensive for Congress to look at it as a jobs bill. As I calculate the figures, it looks like it will cost us about $70,000 a job for—over the 5 years, and we did almost as badly as that with CETA. We could reinvent that if it was necessary.

Chairman Gibbons. Is that $70,000 a year?

Mr. Frenzel. $70,000 in 1989. Again, these are figures that need to be worked on and are not certified by anybody. I say "about." I hope that the CBO report will be—when it is published, a little more definitive.

I am glad you cleared up that the $7 billion was a total and not an annual figure, which was the idea that bothered me from the start.

After investment, which I think is really critical to our decision, I want to get into the basis for bringing the bill to us. That is the unfairness that is alleged. Each one of you testifed that things would be all right if the world were fair.

Yet, I can recall the chairman and I back many years ago literally begging your industry to use the trade laws that were on the books. But there was always an outside kind of negotiation. It was either with Tony Solomon on trigger price or Mac Baldrige on some kind of distinction, buttressed by the last-minute Heinz amendment on the floor of the House to write new trade law, because for some reason, the laws were never adequate.

There are some industries who have found those laws adequate. If indeed this is so unfair, why have we never gone through with any of the cases that have been alleged?

I understand there are many unfair cases pending now. I hope they are seen through to conclusion and I hope they are helpful.

The other, third question that bothers me terribly is the labor cost to the industry. This is at least partly appropriate for the gentleman who was not able to be with us today. I hope we will be able to go over it with him.

The figures that are presented to us allegedly from the Department of Labor indicate that United States Steel job commands now about $21.73. This is mid-1983, I believe. The Canadians are the closest to us, in the mid-$15 range, followed by some European producers who run from $10 up to something over $12; Japanese, under $11; Brazilians and Koreans, down to about $2.

It does seem to me that even if you have a freeze for a couple of years under the agreement reached earlier, there isn't any way in the world that these major producers are going to catch up to us or we are going to slow down to them. That being the case, what happens?

The other thing that bothers me is labor agreements expire. Yours does in 1986. According to testimony I have seen, you—we saw what happened to the Chrysler give ups after the expiration of that agreement and the feeling that the company was again profitable, wanting to get right back to where they were.

One fact is the steel industry and its major consumers are still miles above the average wage and manufacturing in this country and of course miles above those in other countries, which leaves some doubt about essential competitiveness, even if a few billion dollars are put back into the system.

Then as we talk about restructuring, I do want to go through your testimony, Mr. Roderick, and find out about these numbers on productivity. As I am looking at the raw numbers, I look at about 610,000 employees in 1974 producing 109 million tons of steel and in 1983, 335 more or less producing 67 million tons. It looks to me like there isn't a whole hell of a lot of productivity gain. I am sort of interested in getting a comment on that.

Then in your testimony, you talked about restructuring and you indicated that foreign countries had been unwilling for political and social reasons to restructure in order to match capacity with demand. Unfortunately, instead of working on them, you are suggesting that we follow this course, that we also politically be unwilling to do that restructuring.

I was noting some place—and it looks to me in the last 5 years while the U.S. production has declined something over 8 percent, Japan is something near 13 percent, France is something over a third. It looks to me like there is some restructuring going on out there, but we are not doing it.

I guess finally I would like to know something about the antitrust problem with respect to making your industry more competitive; that is, are we allowing you to do the acquisition or the disposition the way you would like to do so that strong companies could position themselves?

I am scared to death that we will do as we did with the railroads, and when they were sufficiently weak, so that they could merge, we allowed the Pennsylvania and the Central—the New York Central to merge into a line that could not be successful.

It seems to me that that is an important consideration, although it is outside the scope of this committee, if the laws are not sufficient for the industry to make itself competitive by trimming its fat and absorbing somebody else's fat which works with your mix, then maybe we don't want to go ahead with this.

I sound very critical and I guess to a certain extent I am. I do not mean to be insensitive to the problem of the industry.

Not too long ago we had a bill before our Congress which was for the REA's. We were going to forgive about $8 billion in loans and we were going to sweeten the pot with some more low-cost loans. The whole problem with the picture was no matter how much honey we poured into that pitcher, we were not curing the problem. That is the thing that plagues me about this situation. So I am asking, is this the only solution, and secondly, is it the best solution?

I await your comments.

Mr. **Roderick**. Mr. Congressman, we will be very happy to respond to those in great detail. Obviously, you probably had a series of conclusions and questions there that probably got up to the magnitude of 20 plus.

Let me give you an overview and then we will try in written form or I would prefer—and I am sure others would—to come and spend some time with you to clear up some of the misconceptions that maybe you have at the moment.

The case of is this all we need to totally modernize, we are not saying this is a panacea, that with this all of our problems disappear. We are not saying that. At least, I don't recall anybody saying that or alleging that.

What we are saying is that we think that the present trade laws, which we have tried to use religiously now for a long period of time, are not effectively dealing with the problem. The fact that we have found in the last 2 years something like—well, as I say, in my company alone, 41 cases, that just for starters; and during that period of time, imports have gone from 16 percent to 26 percent clearly would indicate that the trade laws as they are presently constructed are not working in the case of steel. I am not talking about some of the other places.

I also would like to call your attention that another evidence that maybe they are not working or something is not working out there is in the last 3 years, we have gone from a zero trade deficit, let's say pretty much of a wash 3 years ago, to where I think last month we are now running at $120 billion in trade deficits. I would like to indicate, Mr. Congressman, something is not working out there, and perhaps that it would be prudent for Congress to take a very hard look at this.

Now, are there many things that we have done, are doing, and need to continue to do? The answer is yes. There is no question about that. We are going to continue to try to improve productivity. We have done quite a job. We are the lowest man hour per ton country in the world, and I think we are going to get better before anybody gains on us.

I don't think that gap is going to be closed. We clearly think we need this bill as a transition to improve cash flow and accelerate our modernization while we are doing all of these other things in the form of self-help to, in effect, maintain a semblance of a steel industry in this country.

Again—and unless you want to ask specific questions to any of our members of the panel, we think you are underestimating in some of your conclusions the power and the usefulness of a quantitative limitation, as I think has been pointed out. It has worked; it will work, and it will be most helpful to the carbon steel industry as well as the specialty steel industry.

Chairman GIBBONS. Mr. Roderick, I don't want to discourage you and I want to commend the industry for having used the remedies as vigorously as you have. But in order to encourage you to use them more, I want to point out that imports have dropped from 1981 to 1983 from about 20 million tons down to 17 million tons.

Mr. RODERICK. Yes.

Chairman GIBBONS. So you have been successful in the use of your regular remedies.

I see some of the staff over there shaking their heads that imports haven't dropped, but they have indeed dropped. Imports in 1981 were 19,898,000 tons; in 1983, they were 17,060,000 tons.

Mr. RODERICK. There is no question, Mr. Chairman, that your raw number is slightly right. What you are ignoring is the fact that the market has declined during that period by 35 percent because we have been in the middle of one of the deepest recessions that we have seen since the 1930's. If you go back during that period that you are talking about, the actual shipments or the products between the two periods, the market here was about 110 million in 1981——

Chairman GIBBONS. Thirty-four according to the Department of Commerce.

Go ahead.

Mr. RODERICK. I am looking at 20 million of imports and 88 million of domestic shipments. I don't think my addition is too bad, to say about 109. I will compromise with you.

Chairman GIBBONS. We are looking at the same figures.

Mr. RODERICK. So it is about 108. What we are clearly saying at that point in time is that the imports have stayed relatively constant while our total market, due to the recession, has declined. As a percentage, Mr. Chairman, you also quoted 1974 for some reason earlier, as I recall.

Chairman GIBBONS. It is a 10-year period.

Mr. RODERICK. Yes. I take 1974. It is a good period. The imports during that time was 13.4 percent of the market; 13.4 in the first quarter of this year, they were 26 percent.

Chairman GIBBONS. That is where we have a fundamental difference in the way we look at this thing. You look at it as a share—imports as a share of the market. I am looking at imports as imports as imports.

What you are saying is that we always ought to have a certain share of the market, no matter how badly or how well we do. The whole case, as I see it, for your industry is built upon the fact we are losing our share of the U.S. market. But the total volume of imports has not changed remarkably.

I was astounded when I first ran into those figures a few months ago—that imports haven't changed a hell of a lot. They keep their share of the market.

What happens is that the change in the size of the market comes out of the domestic industry. Within the domestic industry, the change in the share of the market comes out of the integrated producers. So the importers keep their share, the minimills increase their share of the domestic market, and you gentlemen, to the extent that you represent integrated producers, are losing your share of the market.

That tells me something. Maybe I am completely wrong, but that tells me something else is going on that I don't really understand yet.

Mr. TRAUTLEIN. Let me say if you annualize—I realize two months is a short period. If you annualize the rate of imports for January and February, sir, you come to 25-plus million tons a share. What we are talking here about is trying to find a mechanism to have our trade laws enforced.

Chairman GIBBONS. I want them enforced, too.

Mr. TRAUTLEIN. We have tried the laws that are on the books. What happens, we lose when we win.

For instance, we won a case against the Brazilians on plates. The dumping margins found were so large that they turned out to be greater than all our employment costs.

Then what happens, the Brazilians change their product mix and somebody else brings in plates. We win a case. Rather than have 1 ton come in, we have 2 tons.

Chairman GIBBONS. We recognize that as a problem.

Mr. TRAUTLEIN. We are trying to find a mechanism to have our trade laws enforced. We don't know any other way.

Chairman GIBBONS. Hopefully the amendment Chairman Rostenkowski put in my trade remedies law will help in that area. I don't know whether it will or not. But I think you do have a good point there.

Mr. TRAUTLEIN. We are running out of time.

Chairman GIBBONS. I understand.

Mr. Lena?

Mr. **Lena**. I think the point is the foreigners are keeping, by the table you are using, their tonnage fairly constant. That is your point.

Chairman **Gibbons**. Yes, sir.

Mr. **Lena**. As a share of the U.S. market, percentage share, they are increasing that share, even if the tonnage is staying the same.

Chairman **Gibbons**. Correct.

Mr. **Lena**. As the domestic demand declines, no matter who supplies that, they have extracted a much larger percentage share of that market.

Chairman **Gibbons**. No doubt about that. Percentage share of the market. No argument.

Mr. **Lena**. The point is in terms of operating a steel mill in an efficient manner, you need the volume. You just need it. They take it away. Really, if free market forces were working, what you expect as the U.S. demand goes down, their imports to us would proportionately go down. They don't.

Chairman **Gibbons**. I am not here to defend the imports. I am trying to find a solution to the problem we have.

Mr. **Lena**. May I comment on two of Congressman Frenzel's points?

Chairman **Gibbons**. Certainly.

Mr. **Lena**. One is on the use of the trade laws. I think in our case at least, in the specialty steel industry, our attempted use of the trade laws goes now over a 10-, 12-year period. I would say in almost every one of them, we won the battle and lost the war because of the remedy that was subsequently applied and how it was aborted.

Let me give a couple of examples. One goes back to 1972 when we won a dumping case against the French, and a dumping duty was imposed. Under the law, the Government is supposed to verify that every year. It was never verified in any single year over a 10-year period.

When we went to the Commerce Department about it, they took the position they don't have to verify it every year. So we went to the International Trade Court. They were told they had to. When they did, they found the French were still dumping. That was over a 10-year period.

We had a dumping case against Germany on tool steels. Margins as high as 100 percent, 60 to 100 percent were found. The Commerce Department said 60 because they couldn't figure out how it could be more than 100. On the final determination, they had dumping margins running from like 2 percent to 90 percent on individual products and put in an average of 7 percent.

You are familiar with the situation with respect to Brazil where we won dumping cases where the Government agreed to suspension agreements which allowed the Brazilians to calculate an export tax. Even in the cases we have won, we have gotten no relief from them because the will hasn't been there.

On the subject of wage and employment costs, I would hope you would look at the subject of productivity in combination with labor costs. What is really important in our competitiveness is what our labor costs per ton are.

In our company, by example, steel worker employment costs went up between 1974 and 1984 by 152 percent. Our actual labor costs per ton during that time period went up 60 percent, with that difference being offset by productive gains. If you look at the compounded rate of decrease, it is like 4 percent.

We are not paying our workers $22 an hour. We are paying them like $13 an hour, with the added difference being fringe benefits, part of which have gone up in unemployment, Social Security, and workmen's compensation as a result of requirements. Part has been a significant increase in health care costs, which we are all concerned with, which has been going up at a rate of 16 percent per year.

Chairman **Gibbons**. That escapes the point I am trying to make. I am not comparing us with foreigners. I am comparing the U.S. steel industry with other U.S. industries and workers. You all have no peer in that regard.

Mr. **Lena**. I think you have to look at the nature of the jobs and compare.

Chairman **Gibbons**. I have looked at them.

Mr. **Lena**. I will give you an example. There was recently a town in the south when every school teacher in town applied for a job that became available. For each school teacher, that would have meant an increase in salary of $7,000. The job paid $19,895 a year plus very good fringe benefits. What the job was was a janitor in a post office.

Chairman **Gibbons**. You are right on target.

Mr. **Lena**. That is comparable to the kind of wages we are paying steel workers. We have a problem, but there are general problems.

My point is, if we are competitive on a cost basis, regardless of what we pay our people, that is really the criterion to judge us on.

Chairman **Gibbons**. We have different figures on productivity, and I won't dispute the figures Mr. Roderick has already given, but I would ask unanimous consent that at the point of Mr. Roderick's remarks in the record, we insert both the Bureau of Labor Statistics figures on productivity and the Marcus figures and try to footnote them appropriately. They are rather divergent.

I don't want to go into it here. I recognize that it is a murky area to talk about anyway, measuring productivity. I think we ought to try to keep the figures——

Mr. **Peabody**. I think everybody in the world recognizes the BLS labor and productivity statistics are flawed—GAO, the Congressional Budget Office, everybody in the world.

Chairman **Gibbons**. I realize there are problems with them. I realize that. There are problems with all productivity figures in this area. That is why this job is so tough.

Excuse me, Mr. Frenzel.

Mr. **Frenzel**. Are you still operating on my time? I think we ought to give Mr. Downey a chance.

Chairman **Gibbons**. I must leave now, and so I am going to ask Mr. Downey to Chair the remainder of today's hearing. I will be back in touch with you gentlemen. I am ready to visit with you any time in my office.

Here comes Mr. Pease.

Mr. DOWNEY [presiding]. Mr. Chairman, thank you. I want to thank the witnesses for testifying today. As I said before, I am inclined to be sympathetic to their claim. I would point out, Mr. Chairman, that wouldn't it be wonderful if we had a system of trade in this country that made sense or in all fairness, as I suspect I am a partisan Democrat, an administration that has been consistent on the question of free trade.

When Mr. Brock was before this committee, I asked him what he thought of the legislation that would help the steel industry. He likened the use of quotas to cancer. Then I asked him what he thought of the quotas that we use to protect 14,000 sugar growers in the country, costing the American consumer about $4 billion to $6 billion, estimates vary. At the tune of about $275,000 a grower.

He said that he was against those, too. I said well then, would you support my bill to do away with the quota? Of course, he didn't have an answer for that. This administration doesn't have an answer for that because the political clout of the sugar growers and the deals that they made in order to pass the 1981 budget have passed for policy.

I have nothing against sugar growers and nothing against sugar. It seems to me if this great country is deciding that it needs to have a sugar industry, domestically produced sugar, it needs to address the issue just as squarely that it needs a domestic steel industry, one that is healthy and vibrant.

I would point out, Mr. Chairman, in 1901 the first billion dollar corporation was the steel corporation and it gave rise to a period of unparalleled economic expansion for this country. There is no one here who would quarrel with some basic tenets. Those are that the steel industry, despite the fact is has changed in nature and character over the last 80 years, is still vitally important to this country. No one disputes the fact that the trade policies with respect to the importation of steel in this country have violated the very notions of GATT. That is why the steel industry has gone to first the Treasury Department and then the Commerce Department to deal with this problem.

That is factual, that is clear on the record. No one disputes that.

Mr. FRENZEL. Will the gentleman yield?

I think the gentleman spread the net a little wide when he said no one disputes.

Mr. DOWNEY. Some dispute that. I don't mean to include the gentleman from Minnesota. I think it is clear that given the fact that there are trade remedies and that they have been successfully used by the industry, it is further evidence of the fact that we don't have a free market out there where natural competitive advantage is determined by who is the most efficient. Producing steel in certain countries is a function of social and political policy as well as economic policy.

That is indisputable. What we are faced with today, and I would say this—I don't mean to harangue—it is the converted preaching to the professors here, I suspect. We are going to have—those of us who support this legislation will have a hard time with it in this committee and outside of this committee. I want you to walk through with me some of those answers.

First of all, Mr. Roderick, I heard you answer in part—and I want a little embellishment on it—this CBO quotation we will here no doubt ad nausium and ad infinitum over the next several weeks that the money that is available in the cash flow is not going to be enough. If I understand, paraphrasing your answer, and I want to hear it as well from the other panelists, that it is not—you do not seek a panacea here, you seek a little help and a little time?

Mr. RODERICK. That is right, Congressman. We would never allege that this piece of legislation is going to give us all the cash flow and all the corrective measures that we are working on and will continue to work on. But we think it is one of the essential building blocks for the other things to fall in place. We know that it will give us added volume, and that means cash and it means a lot of cash flow, and additional cash flow if we are able to get that additional volume.

There is no question it will put that money back into the steel sector and it will again, through better processes, generate additional cash flow. So you have a little bit of an evolving universe once you start that process; but I think somebody is fighting strawmen if they indicate that this is going to solve all the problems, because no one has ever alleged that that is knowledgeable of the industry.

Mr. LENA. If you were in our shoes and were faced with the situation you just described, which is not a free market situation, and you are faced with the prospect of having to invest $100 million or $200 million or $500 million, but you don't have the certainty out there you are going to be able to compete on a fair trade basis, which is consistent with the free enterprise risk-reward system, what would you do? Would you invest that money? That is the real issue. You know it is not simply a matter of where the cash flow will come from, which is a major part of it. The other part of it is what is the incentive going to be for the willingness to take the risk if you have a legitimate fear that the same situation will exist in the future as has existed in the past.

To me, that is a much more significant question rather than simply where the cash flow will come from.

Mr. DOWNEY. An excellent point. Let me deal with question No. 2, this particular remedy, the use of quotas as opposed to the use of the existing trade mechanism. You have already testified ably on the point that the question of the existing law is simply not adequate. It has not been adequate. This was true from 1972 through 1979, as I understand it. The Treasury Department was particularly delinquent in their prosecution of these cases and since the agreement of 1979, they have been better, but from your perspective, better is not enough in this instance of dealing with the problem; is that fairly summarizing your testimony on this question?

Mr. RODERICK. Yes. I think that history has clearly indicated that I think somebody has used the phrase that we win the battle and lose the war. Let me just give you an illustration on one we lost just last week although we won about 85 percent of them. This one we lost last week. We filed dumping charges against the Brazilians. The margins of dumping were 50, 60 percent. From the time we filed until they finally did their investigations and so forth, the Brazilians very glibly merely said we will devalue our cruzeiro and in effect they have to adjust their study numbers which eliminates the dumping.

So we cannot deal with that type of situation where a government in order to protect government-owned exports in effect regulate their currency. Our trade laws are just totally ineffective against that, absolutely ineffective. Sweden has done the same thing last year, exactly the same way. They said at the time they did it they were doing it to improve their export capability.

Our laws are eunuchs when it comes to dealing with the problem.

Mr. DOWNEY. Let me deal with another series of questions. I am beginning to hear Mr. Frenzel's speech on the floor ringing in my ears right now. I want to anticipate every one of these claims that will be made. When United States Steel, Mr. Roderick, was interested in acquiring National Steel, your company praised National's technological competitiveness. Mr. Tucker of National Steel apparently said that, on the proposal to Nippon Coal, the sale would give them, "The opportunity to create a world-class steel company in America which we do not now have at the present time."

That is fairly damaging, it seems to me, from a fellow steel executive. How do I answer the unemployed steelworkers and my skeptical colleagues that United States Steel and the other industries represented—the other companies represented here from the industry are doing everything they can within their means right now to become world class steel companies?

Mr. RODERICK. I think, Congressman, to show you one of the ways we are doing it—again we have to do it within the limits of the capital we have available; but if you would like to come down to Alabama next Monday, we will show you a world class pipe mill that has just been finished at the cost of $750 million and there is no pipe mill anywhere in the world that will put out the quality of that mill.

So it is not a lack of desire of this industry to invest and get all of our facilities to a world-class level. It is, again, capital constraints and cash-flow constraints that limit that. I don't think that it would be appropriate for us to comment on Mr. Tucker's comments. If he wants to say those things about his own company, he certainly is free to do so. They certainly do not apply to United States Steel, I can assure you of that.

Mr. DOWNEY. Mr. Roderick, I want you to understand that you are not a hostile witness, but I am going to give you a little harder time. Again if it is not Mr. Frenzel, it will be somebody else that will quote the United States Steel annual report back to me on capital expenditures and commitments for property plant and equipment.

With respect to the Alabama plant your report says the pipe mill was financed through the sale of tax benefits and through arrangements with financial institutions which relies on customers' commitments under the pipe purchase contracts.

Somebody will say to me that is wonderful, United States Steel has done this wonderful work down there in Alabama. But in all fairness, Congressman Downey, they are not doing—they have done it with the use of tax benefits and through customers and financial institutions. That is not really their operation at work. It is not really their commitment.

How do you answer that charge?

Mr. **Roderick**. It really is our commitment, along with some of our customers who are putting their hard-earned cash and credit on the line to come up with that $750 million. Now admittedly, we use the tax laws like everybody else would use them.

Mr. **Downey**. That is no crime.

Mr. **Roderick**. No. That—tax benefits are not peculiar to the steel industry. They were available to others. We use the tax laws that are on the books. Just like I am sure we all do as individuals, we do that also as a corporation which obviously we are expected to do.

But I think that there is no question that due to this lack of cash flow, most of your large or small—integrated carbon producers have resorted to innovative financing in every way that they can. I know Bethlehem has done some. I know we have done some. I know national has done some. We have availed ourselves to, I think, show a great deal of imagination with the lack of cash flow in order to at least get on with the capital programs that we can, using those innovative approaches.

I think if anybody would scold us for that, I would question their motivation. I think we ought to be commended for it and congratulated for it.

Mr. **Downey**. The last question, to any member of the panel. We will hear again, I am sure, a lot that minimills have been able to keep up with the state of the art of technology and they have been doing well and not been as adversely affected by imports as the integrated producers and they have done so in the same climate the integrated operations have not done well.

How would you address that question?

Mr. **Regelbrugge**. I would like to comment on that. First of all, it is a fact some of the product lines of minimills are not being imported or virtually not being imported. That is not something that is necessarily to the credit of the minimills.

It is just that some of these products are—they are low line items in terms of cost to produce as well as with abundant scrap resources in this country, the lowest cost producers are here. So a good part of the minimills are in that business, in light structurals.

Mr. **Downey**. Can you give me a percentage?

Mr. **Regelbrugge**. In terms of overall—it would seem to me at least 50 percent of the minimills in this country are in this kind of business I am talking about. Let me perhaps take our business, the rod business, as a different business. Wire rod has historically been imported substantially because, first of all, there is an excess capacity of wire rods around the world and generally has been. Wire rod has not usually been a very profitable product for the integrated producers. So, regionally there were opportunities for small operations such as ours to become a regional supplier to an adequate market if you were good enough to displace not only the integrated producers, but also the imports.

The integrated producers could be displaced mostly because we picked places distant from their location, their central location of manufacture so we had transportation cost benefits. We built new facilities, brand new, specialized, specific for the product we were going to make. We did use not only state of the art, we advanced the state of the art; some of it originated in our facilities.

Here we are. We have all the advantages that the market could offer, including the free trade system, but we are there within a location in South Carolina and we were in Texas. We had to sell the mill in Texas, considered the most modern of its kind in the world. We had to sell it to satisfy some lenders simply because there was no way to make money on the facility.

Why was there no way? Against—being the lowest cost producer, we could not meet the prices of people who don't have costs as one of their parameters of judgment or of decisionmaking. In our South Carolina mill, productivity improvements have not been sufficient to overcome this price problem. In 4 years, we came from 1,150 people to 700 people with the same production, from 1,150 to 700, in a year's time. It is not good enough. It doesn't do the trick. We cannot survive in this system if what we call free trade doesn't get straightened out.

Maybe I ought to make just one more comment, quickly to a question Congressman Frenzel raised. We are asking for free trade by the definition that you, the Congress, has given to our freedom in the marketplace. It is your laws and the Government's laws to enforce. It is our expectation that they will be enforced and we have the right to base our business decisions on that.

Frankly, they have not been enforced. The business community has been betrayed; and now we are saying face it or you have an industry that will disappear.

Mr. LENA. Another point on minimills: As Roger said, they make a certain product area. You can classify these as coming out of billets made through continuous casters. In no way are they in the sheet market. If you look at investment requirements, my company just started up a few weeks ago a caster to produce billets coming out of a 35 ton electric furnace. The cost of that caster was $7.5 million, a two-strand caster. This is the kind of investment they were talking about, whether it is specialty steel or minimills to make bars and rods. These gentlemen will tell you their latest caster investment for sheet in the carbon steel industry is some $180 to $200 million-plus.

Minimills have their place. You shouldn't confuse with them the aspect of the market they are serving on the lower end of the product line, very limited, with the kind of investment requirement these gentlemen have to look at.

Mr. DOWNEY. I want to thank the panelists and just observe that our colleague, Mr. Bailey—former colleague, Mr. Bailey, a great champion of the steel industry, is here to provide some metal for our backbones. If it is trade that is confusing, there is no question that trade laws are and the alliances that once existed are confusing, no more confusing is the fact that liberal Democrats embrace the moguls of big steel and help them with their problems.

All is not lost.

Mr. PEASE [presiding]. Thank you, Mr. Downey.

Mr. Frenzel has additional questions.

Mr. **Frenzel**. I thank Mr. Downey, too, for writing my speeches for me and for embracing my friendly neighborhood moguls. I hope the embrace will be more than ephemeral.

Under the bill, what happens to the dividends now being paid by the steel companies?

Mr. **Roderick**. Bob, do you want to answer the question? I think we can elaborate on it. We will give you the technical provision of the cash flow requirement.

Mr. **Peabody**. The bill contemplates the reinvestment, the recycling in the steel industry of the cash flow. As Congressmen Gaydos and Murtha said when they introduced the bill in the section-by-section analysis, it is intended to provide for the utilization of the cash not only for new facilities, but also for steel sector working capital, payments on debt, and payments, that is, dividends, on the capital invested in the business.

Mr. **Frenzel**. So that means that dividends will increase proportionate to the increase in capital?

Mr. **Peabody**. Well——

Mr. **Frenzel**. Or could?

Mr. **Peabody**. Dividends would follow the judgment of providing funds to retain the capital in the business.

Mr. **Roderick**. Congressman, I think that—the possibility that cash flow or profitability, if it improves, dividends could be increased by only proportionally. The thing to remember also that during this period of nonenforcement of our trade laws, dividends in the steel industry have probably been cut to about one-third of what they were 3 years ago, so they, in effect, have made a tremendous sacrifice compared to other industries, Congressman. The yield versus market of the stock price versus the dividend in steel is probably at the low end of the scale. I would say it is in the bottom 10 percent.

So I don't think that this industry has ever been abusive in its dividend policy. I don't think it would be abusive in its dividend policy either in the future.

Mr. **Frenzel**. I thank the witness for the testimony and assure him that my interest is in seeing that you are able to pay respectable dividends. If the purpose of the bill is to have a healthy industry, there is no other way you can handle it. I just want to be assured that you and the Secretary have the flexibility to be able to increase the dividend when necessary.

Mr. **Roderick**. We would have that flexibility. We also think it would be necessary——

Mr. **Frenzel**. Despite what my friend from New York said, I am one of the few around here who have defended your right to buy any kind of business you want with your assets and to use it in a relatively free market, with relative freedom. You should be able to do that. One of the problems with this bill is that as you accept the crutch, you accept the chain. You may want a bigger crutch, but I am not jumping up and down to put bigger padlocks on what we make you do.

In fact, it scares me to death. Part of your current distress is due to having been a whipping boy for too damned many years by all of your good friends in the White House and in the Congress, just like my friend from New York.

Mr. Chairman, I want to ask something about minimills. We have a vote. These gentlemen have been here for a long time. I am going to ask those questions privately of the witnesses and their representatives and suggest that we call it a day.

Mr. PEASE. Thank you, Mr. Frenzel. We will terminate the hearing in just a couple of minutes.

Since Mr. Frenzel has not taken every last minute, let me just return to a line of questioning I have. We have some statistics in front of us about the U.S. steel market. I am struck by a couple of things. One is that imports in the last couple of years have been just about at the level of the 10-year average. Exports have been substantially below the 10-year average.

We don't have a surge in imports. What we have is people who buy imports, the producers from a few of the other countries, being able to sustain their share of the market in the face of a declining domestic demand.

Of course, that can be damaging, too.

I am curious to know your opinion as to how much of this imbalance is caused by dumping of subsidized steel and how much of it might be attributed to the strong American dollar against foreign currencies? We just completed a series of hearings on that. The imbalance alone between the dollar, the franc, the yen, and the mark can produce a 25-percent price differential.

Could you comment on the relative influence of that strong dollar aspect versus the dumping and the subsidies?

Mr. RODERICK. There is no question that the strong dollar does several things. No. 1, it makes our market much more attractive for people to try to get that dollar; and, second, with other people willfully changing their currency, and in devaluing it versus the dollar, it improves their situation. We have in our detailed text on page 12, by taking the second quarter of 1984 and merely going back to the exchange rates of 1978 and 1979 to see what that would do to a cost per ton of steel.

In the United States, of course, our costs would stay the same. It would be 478 bucks, because you are going to measure against a dollar. Steel from Japan would be $454; steel from West Germany, $3 higher; this is the actual cost of producing it; steel from France would be $150 higher; and steel from the UK would be about $11 higher.

The distortion in that period of time—and I am not going back very far, just 1978 to 1979, compared to 1984—the distortion in the case of West Germany has been 16 percent; in the case of France, 52 percent; in the case of the UK, 23 percent. It shows if you would have merely held those relationships, not let the dollar get artificially overvalued, which it clearly is, all of these people would be producing costs in their market at a higher cost than in the United States.

Mr. PEASE. Thank you, Mr. Roderick.

You made the point I wanted to bring out at these hearings. We are now down to the point where there are only about 4 minutes left for voting. I have to terminate the hearing. If any of you want to make additional comments, I would be happy to have them for the record.

In the meantime, let me again on behalf of Chairman Gibbons and the committee thank all of you for being so generous with your time today.

This does conclude our hearings. We will continue these hearings on problems of the U.S. steel industry next Wednesday, May 2, at 9:30 a.m. at which time we will receive testimony from Ambassador Brock, Assistant Attorney General McGrath, and Commerce Secretary Baldrige. The hearing record will remain open until all the hearings are complete.

Thank you.

Mr. **Roderick**. Thank you, Congressman. We certainly appreciate your time. We also would hope your committee continues to expedite this matter because the injury is going on. We would hope that your committee would bring this to a vote at a very early date.

Thank you.

[Whereupon, at 1:55 p.m., the subcommittee was adjourned, to reconvene at 9:30 a.m. on Wednesday, May 2, 1984.]

PROBLEMS OF THE U.S. STEEL INDUSTRY

WEDNESDAY, MAY 2, 1984

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met at 9:40 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman Gibbons. Good morning, ladies and gentlemen.

Today the Subcommittee on Trade will conduct its second day of hearings on the problems of the domestic steel industry. Last week we heard the views of the members of the Congressional Steel Caucus and the chief executive officers of major steel companies in support of legislative action imposing a 15-percent global quota on steel imports.

This morning we will hear the views of the administration, both on the pending quota legislation and on current issues in trade and antitrust policy as they affect the domestic steel industry.

Today's witnesses include Ambassador William Brock, who is here with us right now, the U.S. Trade Representative.

We will also hear from Assistant Attorney General Paul McGrath, Chief of the Justice Department Antitrust Division. This afternoon we will hear from Secretary of Commerce Malcolm Baldrige.

Ambassador Brock, we are pleased to have you with us. Your full statement will be included in the record and you may proceed as you wish.

I am glad to see today's news article with your views on the end of the voluntary agreement with the Japanese on automobiles.

STATEMENT OF HON. WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Ambassador Brock. Thank you, Mr. Chairman.

I hope that the statement is borne out by the events on that particular case. That certainly is my own personal and very strongly held view.

I thank you for the chance to talk on this particular subject today. I will try to curtail parts of my testimony and just submit it for the record, but I would like to make several comments about the general state of the industry and about this bill and about some of the problems we think it brings.

In 1983, the U.S. steel industry underwent a slow recovery out of its worst recession since the 1930's. Demand for steel and domestic production is continuing to grow bringing an increasing amount of productive capacity back into operation.

Production in April is 75 percent higher than it was 12 months ago. Capacity utilization is up to 80 percent.

Despite these signs of recovery, many continue to argue that the enactment of the so-called Fair Trade in Steel Act is the only way to save this industry. This bill would impose import quotas of approximately 15 percent on steel products for a 5- to 8-year period.

I fundamentally and thoroughly disagree. In my view arbitrarily established quotas on all steel imports would be counterproductive to this industry's efforts to further improve its competitiveness. I believe legislative quotas provide a false sense of security, not unlike the situation in certain other countries where protection from imports has delayed modernization and retarded their own recovery.

This bill would also undermine the competitiveness of many industries highly dependent on steel as a raw material. Such industries already face strong import pressures. Imposing quotas on all steel imports would raise costs to these producers in a way they cannot afford to absorb and thus shift the burden from steel producers to their customers and consumers.

Some might suggest that Congress extend the quotas so they would apply to these downstream industries as well. But where would the line be drawn? I can see a downward spiral as protection becomes necessary for one industry after another until finally we have none free and none competitive and a stagnant economy.

Furthermore, protectionist action like this is inconsistent with our international obligations not to impose import restrictions without an impartial investigation and a finding of injury.

If the United States ignores these obligations and legislates import relief, our trading partners will almost certainly retaliate, resulting in fewer jobs and slower growth in some of our most competitive industries. The steel industry admits its trade problems are caused by just one-third of our imports that come from countries other than the EC, Japan, or Canada. The imposition of quotas however would apply to all countries, to fairly and unfairly traded imports alike. Imagine trying to explain to our major exporting industries that they are being retaliated against by certain countries for a U.S. action that was really directed at a third country. You couldn't make that explanation.

We have an example. The EC has already restricted imports of certain U.S. chemicals, plastics, and sports equipment in retaliation for the quotas and tariff increases which the United States imposed on imports of specialty steel. The reaction of the EC and other suppliers to comprehensive quotas on all steel imports, unrelated to findings of injury, is likely to be even stronger.

Yet our specialty steel action was taken in accordance with the rules of the GATT and the President has the authority to negotiate with supplying countries.

Through these negotiations we were able to settle the claims of most of the supplying countries without suffering comprehensive retaliation. While the 1980 to 1982 average of U.S. imports of specialty steel from all countries amounted to about $300 million per year, only $135 million in U.S. exports are subject to retaliation. I want to point out that U.S. imports of the steel products that would be covered by this bill amount to $6 billion. Passage of the bill could result in retaliation of up to $6 billion worth of U.S. products.

Mr. Chairman, this is a staggering amount and the hardship and dislocation that could result would be enormous. I believe that the steel industry's problems are far more complex than the authors of the bill suggest. All steel firms do not suffer the same problems and workers at different firms have not been affected all in the same way.

Some firms are doing considerably better than others. We are most aware of the problems of the large integrated steel producers and perceive their problems and those of the entire industry. Clearly integrated producers dominate the industry and are the force behind this bill.

These producers operate what have become in too many cases nonefficient, old facilities, in some instances located far from markets for their output, and for most of the 1970's wages and salaries rose far faster than gains in productivity.

That is a tough combination.

The main problem of these producers is their inability to raise adequate capital to improve their competitive circumstances.

Other parts of the steel industry, however, view imports differently. The so-called minimills are the fastest growing segment of the industry. These mills have lower cost, higher productivity, and have been considerably more profitable than the major producers. Several minimills continued to be profitable through the recent recession and many have plans for expanding, not contracting, capacity.

A third party of the steel industry is the specialty steel producer. These producers have suffered some of the same problems as those who are integrated. They have done far better at adapting and even developing the newest technologies and are staying cost-competitive with foreign producers. Their problem was largely one of unfair trade.

Nonetheless there have been surges of specialty steel imports over the past few years and there is considerable global excess capacity in this sector as well, with the result that prices have been artificially suppressed; thus, pursuant to a section 201 finding in July of last year, U.S. specialty steel producers are currently receiving import relief.

I would like to say there is a fourth segment of this industry and that is the working producers. The concerns and problems of these consumers of the steel mill product rarely get the attention they deserve. This sector employs 20 times more people and accounts for 10 times the share of GNP that integrated producers have, so their interests must be considered.

These producers would clearly be hurt by increased prices for raw materials and by import competition as foreign producers shift from exporting steel to exporting products made of steel.

There are certain fundamentals taking place in our economy that no legislation can reverse, Mr. Chairman, the simple fact being that we need considerably less steel than we did 10 years ago, 20 years ago and 30 years ago. I think the Secretary of Commerce will point out that in terms of tons of steel produced per million dollars of GNP, we are using less than half as much steel in 1984 as we did in 1954.

We are shifting.

Automobile manufacturers require less steel, Ford automobiles weigh 1,000 pounds less than they did 5 years ago. Plastics, aluminum and other materials are often cheaper and more efficient substitutes.

The steel industry itself has developed lighter, stronger, more sophisticated steel to substitute for the heavier, bulkier steel of the past. Thus less steel is demanded and less produced.

The only way for the U.S. industry to deal with these changes is to continue the major restructuring process already presently under way. We do not need legislative quotas for this modernization to occur. Restructuring is occurring now.

The integrated producers are in the midst of a major modernization effort which has resulted in closure of millions of tons of steelmaking capacity. Although these producers do not like to boast, they have made remarkable progress in recent years to improve their competitiveness. Recent capacity reductions and productivity improvements have lowered break-even operating rates from 80 percent of capacity to 69 percent over this period.

Adjustment efforts in the industry are not complete but they are occurring without this bill. Some of our foreign steel competitors operate highly efficient unsubsidized steel facilities. Producers like our minimills provide incentives to our integrated producers to continue modernization to be as competitive as possible, an incentive I would point out that would be lost if this bill were law.

Incentives of this nature are in the interests of all of us and should not be discouraged.

However, other foreign steel producers operate inefficient plants which continue to produce and to export significant quantities of steel products. A large quantity of uneconomic excess steel-making capacity has sprung up in the world today, severely depressing the international steel market. Certain countries have attempted to insulate their steel industry from this situation with a flow of subsidies or with closed markets or both.

The result of these practices could have been predicted. For example, in the name of restructuring, the European Community has used extensive subsidization and import protection. Some would say that the quota bill is no worse than the EC's protection. My fear is that the quota bill would be no better. Needed restructuring in Europe has been delayed endlessly, due largely to the false security provided by subsidies and import protection.

If the U.S. industry wants to modernize, the example of the EC should demonstrate that comprehensive protection is not the way to accomplish it. I might point out, Mr. Chairman, parenthetically, that I think some numbers in Dave Roderick's testimony before you pointed out the losses in the European steel community and if I remember correctly—it is in the testimony here—in the last 6 years the largely nationalized industries of Britain, France, Italy, and Belgium lost well over $200 billion. That is hardly an example that we should want to follow.

U.S. steel producers have brought an unprecedented number of cases against unfairly traded steel. There have been a great number of cases. The first batch of these cases resulted in the US/EC carbon steel arrangement which now limits most steel imports from the EC. I was told recently that two-thirds of the steel imports coming from the other countries other than EC, Japan, or Canada are either under investigation or subject to restraint action of some kind. Once these cases are resolved we should have a fairly comprehensive response to unfairly traded steel products, but one done within U.S. law and with the constraints of our international obligations and agreements and commitments.

I strongly urge that we not preempt this process by moving to a legislative solution before the final determinations are even in.

Given the range of actions currently under way, I am surprised at the urgency some attach to enacting steel quota legislation. U.S. producers have taken the time and expense of bringing a record number of cases under our established present law. Now even before the investigations currently under way have been given a chance to produce results, many in the industry are proclaiming both processes have failed and are pleading for a legislative solution.

I think it is fair to ask, why should anyone bring cases under our existing statutes or why should the Government provide the resources to investigate these claims if the petitioners have already concluded that the statutes are unworkable? By the way, it is not our feeling they are, in fact they are working and I think remarkably well.

I recognize the serious trade problems that exist in this important sector. However, we are now addressing these problems under our present law. I do not believe the need exists to skip over these procedures unless it can be proven they don't work and I don't think there is any prospect of that occurring.

That time has not come, Mr. Chairman, nor has the time for the passage of legislation of this sort which in my judgment would be damaging to the steel industry, to their customers, to this economy, and to the American work force.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF HON. WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

I want to thank you Mr. Chairman and the Members of this Subcommittee for the opportunity to present my views on the problems facing the U.S. steel industry.

Over the past several months, the U.S. steel industry has been undergoing a slow recovery out of its worst recession since the 1930's. Production for 1983 was just 84 million tons. Although this is a 12 percent improvement over 1982 production, it remains over 30 percent below production in 1981 and almost 40 percent below production in 1979, the last reasonably good year in the United States. In 1983 production was equivalent to just 55 percent of U.S. capacity.

Demand for steel, and domestic production, is continuing to grow, bringing an increasing amount of productive capacity back into operation. This improvement, in turn, is bringing steel workers back to work. Production in April is 75% higher than it was 12 months ago. Capacity utilization is up to 80%. The number of workers on either lay off or short work week status has declined significantly over recent months and man-hours worked are up.

Despite these signs of recovery, many continue to argue that the enactment of the so-called Fair Trade in Steel Act of 1984 is the only way to save this industry. This bill would impose import quotas of approximately 15 percent on steel products for a five to eight year period.

Abritrarily established quotas on all steel imports would, in my view, be counterproductive to the industry's efforts to further improve its competitiveness, by providing a false sense of security not unlike the situation in some other countries where protection from imports has delayed modernization. It is also troublesome that this bill would undermine the competitiveness of a great many industries highly dependent on steel as a raw material.

Many steel dependent industries already face strong import pressures. Imposing quotas on all steel imports, as comprehensively as proposed by this bill, would raise costs to these producers in a way they cannot afford to absorb, and thus merely shift the burden from steel producers to their consumers.

Some might even suggest that Congress extend the quotas to apply to these downstream industries, as well. But then where would the line be drawn? I can see a steady downward spiral as protection becomes necessary for one steel-related industry after another, resulting in a cumulative competitive burden on our economy and a cumulative cost on the consumer.

Furthermore, protectionist action like this is inconsistent with our international obligations not to impose import restrictions without an impartial investigation and a finding of injury. The GATT provides for import relief only after a finding of injury. If the United States ignores the GATT and legislates import relief our trading partners will almost certainly retaliate against our exports, resulting in fewer jobs and slower growth in some of our most competitive industries.

The steel industry admits that its problem is caused primarily by that portion of our imports—roughly one-third of the total—that comes from countries other than the EC, Japan or Canada. The imposition of quotas, however, would apply to fairly and unfairly traded imports alike from all sources. Those countries that trade fairly will probably feel the most aggrieved by the quotas and would be most likely to retaliate the hardest. Imagine trying to explain to our major exporting industries that they are being retaliated against by certain countries for a U.S. action that was really directed at a third country.

The EC has already restricted imports of certain U.S. chemicals, plastics, and sports equipment in retaliation for the quotas and tariff increases which the United States imposed on imports of specialty steel. The reaction of the European Community and other suppliers to comprehensive quotas on all steel imports, unrelated to findings of injury, is likely to be much stronger. U.S. exports on products such as textiles, chemicals, electronics, and machinery will be subject to import restrictions in other countries with resulting loss of markets.

Our action on specialty steel was taken in accordance with the rules of the GATT and the President had the authority to negotiate agreements with the supplying countries. As part of these negotiations, we were able to settle the claims of most of our suppliers without having to suffer comprehensive retaliation.

While 1980–82 average U.S. imports of specialty steel from all countries amounted to about $300 million a year, only $135 million in U.S. exports are currently subject to retaliation. U.S. imports of the steel products that would be covered by this bill are valued at more than $6 billion. Passage of the bill, therefore, could result in retaliation against up to $6 billion of U.S. exports. Mr. Chairman, I hope you'll agree that this is a staggering amount and that the hardship and dislocation that could result from such retaliation would be enormous.

I believe that the steel industry's problems and the solution are far more complex than the authors of this bill suggest. All steel firms do not suffer the same problems and workers at different firms have not been affected in the same way. Some firms are doing considerably better than others.

We tend to be the most aware of the problems of the large integrated steel producers, and to perceive of their problems as permeating the entire industry. Clearly, the integrated producers dominate the industry and are the force behind H.R. 5081, the so-called Fair Trade in Steel Act. They account for the bulk of steel production, producing it through the traditional process of taking raw materials melting them into iron; and using these materials to make steel. The very nature of this process requires huge production batches and the production of a wide range of steel products. These integrated producers operate what in too many cases have become rather old-efficient facilities, in some instances located far from markets for their output, and for most of the 1970's wages and salaries rose far faster than gains in productivity. That is a tough combination.

The main problem for the integrated producers is their inability to raise adequate capital to improve their competitiveness. These producers have documented the gap that exists between their capital requirements and their investments. This gap ranges between two and three billion dollars per year. As result, there has been a slowness to introduce new technologies and a further loss in competitiveness.

Other segments of the steel industry however, do not view imports in the same light as do the integrated producers. Congress must take those segments into account. The so-called mini-mills, for example, are the fastest growing segment of the industry, producing a select range of products and serving a relatively limited market. These mills have lower costs, higher productivity and have been considerably more profitable than the major producers. These factors allow these firms to sell stell at very competitive prices. Several mini-mills continued to be profitable through the recent recession and many have plans for expanding, not contracting, capacity.

A third segment of the steel industry is the specialty steel producers. These producers differ from the mini-mills in that they make higher grade steel products for more sophisticated applications, as opposed to the commodity grade products made by mini-mills. These producers have suffered some of the same problems as the integrated producers, although capital availability has not been as much of an issue. This segment of the industry has done far better at adopting—and even developing—the newest technologies and in staying cost competitive with foreign producers.

Nonetheless, there have been surges of specialty steel imports over the past few years and there has been an array of unfair trade practices found in this sector. As in carbon steel, there is considerable excess capacity in this sector, on a global basis, with the result that prices have been articially suppressed. Low prices have limited needed investment in certain parts of this sector. As a result, U.S. specialty steel producers are currently receiving import relief pursuant to a Section 201 finding in July 1983.

There is also a fourth segment of this industry, the metal working producers. The concerns and problems of these producers rarely get the attention they deserve. This sector employs 20 times more people and accounts for almost 10 times the share of GNP than the integrated producers and so their interests must be considered. Metal-working firms are typically small, without enormous political muscle, yet they are also sensitive to imports. These producers would clearly be hurt by increased prices for their raw material and also by increased import competition as foreign producers shift from exporting steel to exporting products made of steel.

The integrated producers are in the midst of a major modernization effort that has already resulted in the closure of millions of tons of steel-making capacity. Some of our largest integrated mills shut down or curtailed capacity in 1983. Major closings were announced at U.S. Steel, Bethlehem steel, Kaiser, and Armco. The result was the elimination of 15.9 million tons of steel-making capacity in 1983, a 9.6 percent drop from 1982. U.S. Steel alone announced the closing of rougly 6.6 million tons of capacity, reducing their total capacity by 20 percent. These closings included the shutdown of five major facilities and the elimination of over 11,000 jobs in the steel-making sector.

Many are wondering whether these job losses could have been prevented. Some place the blame for this situation on imports and hope that H.R. 5081 can allow the industry to regain its previous stature in our economy. Some may even hope that rigid restrictions on imports will enable facilities that have been closed to re-open.

There are certain fundamental structural changes taking place in our economy that no legislation can reverse. A simple fact is that we need considerably less steel today than we did 10 years ago. Automobile manufacturing requires less steel. Plastics, aluminum and other materials are now often cheaper, lighter and more energy efficient substitutes. The steel industry itself, has developed lighter, stronger, more sophisticated steel to substitute for the heavier, bulkier steel made in the past. The response to this decrease in demand is that less steel is being produced. The only way for the U.S. industry to adjust to these changes is to continue the major restructuring process already underway. We do not need legislated quotas for this modernization to occur. Restructuring is occuring now and has been underway for years. Although the integrated producers do not like to boast, they have made fairly remarkable progress in recent years to improve their competitiveness. In the past two years these producers have reduced total costs by 18% and increased productivity by 25%. Recent capacity reductions have lowered break even operating rates from 80% to 69% over this period. Adjustment efforts in this industry are not complete. But adjustment is occurring without this bill.

The industry's modernization efforts have been complicated by the recession that has struck the steel industry. As a result of the recession, which was caused largely by the mistaken policies of previous Administrations, roughly 40 million fewer tons of steel were consumed in 1982 and 1983 than in the previous years. This decline has had a devastating effect on the industry. In addition to the reduced production and job losses I've mentioned, the industry lost more than $6 billion during this two year period.

The integrated steel producers continue to face significant investment and restructuring requirements. The plant closings, the merger of LTV and Republican Steel, and the kind of cooperative collective bargaining agreement negotiated between the industry and the union demonstrates a recognition of the need to modernize and to cut costs. The National Steel-Nippon Kokan merger may be another step in this direction. I would expect additional modernization efforts to occur to improve the industry's competitiveness in the future. Painful, yet essential cost reductions must continue if this industry is going to survive and prosper.

Some of our foreign steel competitors operate highly efficient, unsubsidized world-class facilities, that are being continually modernized. These producers, like our own mini-mills, provide an incentive to U.S. steel producers to maximize efficiency and to market their product at the lowest cost possible. Incentives of this nature are in the interest of all of us and should not be discouraged.

However, other foreign steel producers operate inefficient plants which continue to produce, and to export, significant quantities of steel products. A large quantity of uneconomic, excess steel-making capacity has sprung up in the world today. Foreign producers have tried to modernize this inefficient capacity, often with little success, largely because of social and political constraints. Complicating this is the desire of many developing countries to build show-case steel mills whose production cannot be justified by domestic or international market conditions and who have only a marginal chance of profitablity. This development has been exacerbated by the haste with which many developed countries have rushed to provide subsidized financing for the export of steel-making equipment to build mills in the developing countries.

Certain countries have attempted to insulate their steel industry with a steady flow of subsidies or with closed markets. Subsidies have been used to sustain otherwise failing steel companies, to promote exports into weak world markets or, in the case of developing countries, to expand their industrial base. The result of these practices could have been predicted. For example, in the name of restructuring, the European Community has used extensive subsidization and an import protection that includes both a basic price system similar to our old trigger price mechanism and bilateral quota arrangements with both quantitative and price elements. Some would say that the quota bill is no worse than these schemes. My fear is that the quota bill would be no better. Needed restructuring in Europe has been delayed endlessly, largely due to the false security provided by subsidies and protection from imports. If the U.S. industry wants to modernize, the example of the EC should demonstrate that comprehensive protection is not the way to accomplish it.

As you are all probably aware, U.S. steel producers have brought an unprecedented number of cases against unfairly traded steel. The Commerce Department has investigated a record number of antidumping and countervailing duty cases since January 1982. The first batch of these cases resulted in the U.S.-EC Carbon Steel Arrangement, which is now limiting most steel imports from the European Community. Commerce is now investigating 36 complaints involving steel imports from Brazil, Korea, South Africa, Argentina, Spain, Australia, Taiwan, Finland, Czechoslovakia and Poland. I was told recently that two-thirds of the steel imports coming from countries other than the EC, Japan and Canada are currently either under investigation or subject to some restraint action. Once these cases are resolved, we should have a fairly comprehensive response to unfairly traded steel imports. I strongly urge that we not pre-empt this process by moving directly to a legislated solution before the final determinations are even in.

Given the range of actions currently underway, I am surprised at the urgency some attach to enacting steel quota legislation. U.S. producers have taken the time and expense of bringing a record number of cases under our established statutes. Now, even before the investigations currently underway have been given a chance to produce results, many in the industry are proclaiming both processes have failed and are pleading for a legislated solution.

I hope the absurdity of this situation is as clear to members of Congress as it is to the Administration. Why should anyone bring cases under our existing statutes, and why should the government provide the resources to investigate these claims, if the petitioners have already concluded that the statutes are unworkable?

I recognize the serious trade problems that exist in this important industrial sector. However, we are now addressing these problems under several of our existing trade statutes. I do not believe the need exists to skip over these procedures until it can be proven that these procedures don't work. That time has simply not come.

If Congress passes this legislation one wonders why any industry with any political strength would ever again follow the established procedures. The answer would be clear: Ignore established procedures, and undertake a massive lobbying effort to get Congress to legislate away your problem for you.

In closing, I want to reiterate that the Administration strongly opposes H.R. 5081 and enactment of the legislation would not be in accord with the program of the President.

Chairman GIBBONS. Well, Mr. Ambassador, I want to thank you for your very courageous and very thoughtful testimony here.

Often during these hearings, in fact in our first hearing, talk about retaliation as a consequence for having departed from normal procedure on these matters is pooh-poohed as though it is just a threat that will never take place.

I was about to give the names of countries that have already notified me they intend to retaliate but I don't have an accurate list before me.

Do you have any idea who is going to retaliate when this bill is passed, if it is? I realize most of them are hoping it will never pass and perhaps they have not indicated that they will retaliate against our other manufactured products and agricultural products, but I know I have received letters from representatives of certain countries already. I am sure there will be more.

Have you been contacted by anybody?

Ambassador BROCK. Well, we have had a number of expressions of concern. I don't think people in the trade field who have to deal with each other a lot throw threats around very lightly. I think it is not said in threatening fashion, but they say we may have no choice other than to retaliate because you are violating everything that you have committed to do.

You are breaking the rules of the game if you do something like this. So I don't know that I can give you a list, Mr. Chairman, but my judgment would be that everybody that sells us steel could be in a position to retaliate. That is a lot of countries and a lot of dollar volume and a lot of exports from this country that could be damaged.

Chairman GIBBONS. I think you are wise to take the broad approach and see what could happen from this legislation. I realize we have a sick steel industry. I will refrain from throwing stones and accusations about what made it sick, but we do have a sick steel industry and I guess that the question before us is what type of remedy should the industry be seeking in order to regain its position?

We had in the first witness' testimony on the first day some allegations that we are in such bad condition on steel that we really are affecting our national security interests. As I recall the trade laws we have a national security escape clause type of action. Is there any concern in your mind that our steel industry is so sick that it approaches a national security matter?

Ambassador BROCK. No, sir.

Chairman GIBBONS. Has the administration made any formal inquiry or informal inquiry into that area that you are aware of?

Ambassador BROCK. No. We would be delighted to make such a study if the Congress felt that it would be useful but I would point out to you, Mr. Chairman, that in the Vietnam War at its peak we used only 3.5 percent of the capacity of the American steel industry. I think the high point that I can recall was about 30 percent usage in any war circumstance for our defense requirements.

So I guess, you know, it would be obvious to me and almost any American that the steel industry is vital to our national security but it is not obvious that the circumstance of the steel industry can be changed by this bill in such a fashion that it would be the difference between survival and nonsurvival.

I think the steel industry is going to survive. I think it is going to be surviving in a different fashion. I think there will be companies comprised of different mixes and you will get into antitrust later on and we have to look at those questions, we have to look at our tax laws to be sure we provide adequate opportunity and incentive for savings and investment and for plowing back of earnings.

I really don't think the question is one of survival and national security here today. I think that is not the issue.

Fifteen percent quotas will not affect our survival. It simply won't.

Chairman **Gibbons**. One of the favorable things that has happened in the steel industry is that there has been some moderation in wage demands or in the pay sector of the industry.

Our briefing papers show that the total impact of that was worth $1.01 per hour last year in the steel industry but I realize that that may not be an accurate nor final figure.

Also, our briefing book contains a chart from the Department of Labor showing that on a scale of 100, the hourly compensation for the steel industry stands at the rate of 174.

In that same briefing book, I notice that the textile workers stand at 57 versus 174 for the steel workers. There are lots of other people that use steel in their industries and they don't stand anywhere near that; in fact, the closest one I think are auto workers and they are down at 165. Petroleum workers are down at 158.

There is no one that is paid like people who work in the steel industry. I have a hard time understanding how we can require everyone else to buy steel and in effect pay for the wages that are so far above the wages that they themselves receive. There is just something that strikes me as being sort of unfair about all of that.

I don't know what your feelings are on it. I just feel like, you know, I have lots of workers listed in these other areas of the economy, lumber and wood products, paper and allied products, I have people in glass and other fabricated metal products and they don't receive any where near that kind of wage and compensation.

Is there any reason you know of why we pay steel workers this tremendous premium for their labor?

Ambassador **Brock**. Well, yes, there are some pretty good reasons for paying a premium. I am not sure you can justify any thing close to the present premium. But steel working has historically been a tough, hard, dirty and often hazardous occupation.

I think most of us would feel that the people working in those mills earn it. The problem is that, as I think you heard me say before, I don't have a problem with somebody making $23 or $25 an hour; I think it is great, unless they only produce $20 worth of product. You can't make that up on volume.

Chairman **Gibbons**. That is a good point.

Ambassador **Brock**. Here we have a situation where there is nothing wrong with steel workers making those wages as long as they are given the tools and efficient facilities and investment to produce enough product with those hours worked to be competitive in a global marketplace. I think that is where the shortfall has occurred.

For a whole variety of reasons, that investment has not been made. We have about one third of our facilities in continuous casting that other countries have. So they use in other countries not only less man hours but less energy in the production of a ton of steel, because continuous casting does both: It reduces the cost of labor and equipment and also reduces the cost of energy, which is a major element of the steel industry's costs.

When you have that kind of a situation, then you have a problem and that is where we are today.

The thing that bothers me is the question that you really are fundamentally asking: If in fact we are required to subsidize the industry and its wage and salary system, it becomes increasingly difficult to explain to people that are making $12,000 or $15,000 a year why they should be required to pay that subsidy.

Protectionism is subsidy. There isn't any other way you can put it. A quota is a subsidy. It is a mandated consumer-paid subsidy instead of a mandated taxpayer-paid subsidy.

But protectionism is a subsidy by any other word. You can't change the fact of the matter.

What we have here is a request by an industry that is fundamentally important to this country and is an important consequence to our stategic circumstance and our national survival saying they have gotten out of competitive circumstance, and under these situations they are asking for a unique subsidy from every textile worker, from every barber, from every butcher, from every chemical worker, to every policeman and teacher, from every widow and orphan, I will say to my friend, Mr. Pease.

Mr. **Pease**. You forgot candlestick maker.

Mr. **Frenzel**. Gold star mother.

Ambassador **Brock**. I just want to be sure you understood my point.

Chairman **Gibbons**. Mr. Frenzel, do you want to ask a question?

Mr. **Frenzel**. Yes, Mr. Chairman. Thank you, Mr. Chairman.

Mr. Ambassador, we are delighted with your testimony. I think you have told it rather bluntly and rather articulately, if perhaps not optimistically for those who would like to promote this legislation.

I have a number of questions I would like to deal with. The first deals with your gee-whiz number on page 5 of the testimony where you say passage of the bill could result in retaliation against up to $6 billion of U.S. exports; $6 billion is a fairly good-sized number.

Question one: How many jobs are we talking about?

Ambassador **Brock**. You are talking about a couple hundred thousand jobs probably.

Mr. **Frenzel**. That is what it is going to cost us?

Ambassador **Brock**. It could if the retaliation were of a very dramatic magnitude. I don't think it would because you obviously will negotiate to reduce that pain.

We are big enough and strong enough and tough enough to bully other people once in a while into doing less against us than they would want to do. But if they really took action across the board of really kicking us, they could affect—let's just be conservative and say tens of thousands of U.S. jobs.

Mr. FRENZEL. What kind of jobs are we talking about? I suppose first we are talking about, my farm constituents who like to export; in fact, have to export.

Ambassador BROCK. Yes.

Mr. FRENZEL. And some crops, most of what they grow, and an average of at least a third of what they grow. I suppose some of them will be put out of work.

Ambassador BROCK. You talk first about farmers because that is the area that we are awfully competitive in the world economy.

We do sell a lot of farm goods, $40 billion worth of farm products overseas. But it goes way beyond that. It goes to computers; it goes to chemicals; to photographic equipment, film; wood products, paper products, you name it. In most areas, the United States is an exporter of some degree.

Mr. FRENZEL. Are we the largest exporter of manufacturing products in the world?

Ambassador BROCK. Sure.

Mr. FRENZEL. So there would be a lot of manufacturing jobs lost, I assume?

Ambassador BROCK. That is basically what you are talking about.

Mr. FRENZEL. I guess my taxpayers will take care of my farmers then.

Ambassador BROCK. Probably.

Mr. FRENZEL. But probably for the manufacturing workers, should unemployment compensation expire, nobody is going to take care of them.

Ambassador BROCK. Well, you know you don't like to contemplate that sort of thing. I don't think any of us want unemployment compensation to be jeopardized, but the fact is that when you look at legislation like this, you are offering to trade jobs. You are asking for jobs in one area, against jobs in another.

If you are going to get them in one area, you will give them up somewhere else. That is just the simple fact of the matter.

Mr. FRENZEL. The motivation in the bill is to let the light shine on my friends and forget about others' friends or, more crudely, pull up the gang plank, I am on board.

When we confronted that domestic content bill, which was another of your favorites, for automobiles, there was a study done, several studies done, one by CEA, I believe, that related to what, or tried to establish what the job tradeoffs would be.

Is there such a study—has one been done for this bill?

Ambassador BROCK. I don't think one has been completed. I believe one is under way in the CBO, Congressional Budget Office.

Mr. FRENZEL. Yes, we are waiting for that. We have some preliminary conclusions and they would seem to validate what you have told us today.

I would like to proceed to your statement on page 4. This is going backwards a little bit, but on line 3 you talk about countries that trade fairly with us and yet who would of course be effected by the blunt instrument of the quota. When the supporters of this bill, that is the chairmen of some of the major steel companies came in, they of course only talked about the unfairness of the situation. I guess to those of us who are down on our luck, everything is unfair and nobody ever out-competes us. They cheat us out of our birthright.

Who are some of those countries? Is Canada one of those that is going to be adversely affected and how does it feel about the problem?

Ambassador **Brock**. Most of the countries—well, most of the countries are not fair traders in steel. Most of the countries intervene, have quotas, have subsidies but there are some that fundamentally just don't. Canada is a good example.

The Nordics basically are a pretty clean competitor. The Japanese, Koreans, they are not subsidizing. They are playing by the rules.

You know, nobody wants to talk about them because if you only talked about unfair trade, the present law will deal with unfair traders. That is why we have the law in the books.

Our counterveiling duty procedures, antidumping procedures, they may take time, they may be expensive, but they work. And if we will stay with them, we will have a comprehensive solution to this problem in a matter of a very few months.

These cases have been filed. We are investigating them now. We are already making findings of unfair trade practices against Brazil and other countries and as the cases come down and are decided, a solution will be available to us within the context of the fair trade laws that we have on the books.

I think that is all we are asking, that we be given a chance to apply the law written, within reason, to deal with unfair trade practices differently than we deal with fair trade.

Mr. **Frenzel**. Thank you.

Canadian producers have come to me and said, "Look, when you did the domestic content bill, even though we were in the same union and have a specific auto agreement with you, you didn't exempt us."

This bill doesn't exempt our neighbors to the north, does it?

Ambassador **Brock**. No.

Mr. **Frenzel**. So it swats everybody with the same meat-ax.

Ambassador **Brock**. It uses a universally aimed blunderbuss.

Mr. **Frenzel**. One of the things that interested me about your testimony occurs on page 9 where you call attention to that portion of the steel industry which comprises the customer of the basic integrated steel. You indicate that those customers employ 20 times the people, and yet when steel producers come to us, they talk about their industry and their jobs and they talk about all their customers as part of the industry. Yet, those people tell me they would prefer not to pay higher prices for steel.

Is that your understanding?

Ambassador **Brock**. Well, obviously, nobody wants to pay higher prices. What you have done when you put on a quota on a particular product and therefore raise its price, is that you make all of those who use that product less efficient and less productive and less able to compete themselves.

You know, we have already got restraints on the Japanese on a sale of U.S. automobiles in this country. You probably have noted some of my statements about the logic of the continuation of those quotas, but I don't see how we think we will have a competitive automobile industry if they can't buy steel at a competitive price. It is a large component of cars, even though it is less than it used to be.

This kind of bill will raise the price not just of the steel but of the automobiles that the steel goes into and that means our manufacturers of cars in this country are going to be less competitive to Japanese, German, Italian, and English cars in the future and that means we will produce less cars in the United States and less people will be working in those mills.

We are just not talking about losing export jobs when you do something like that. We are talking about losing jobs that are import sensitive in this country on the part of those who have to compete with steel products and what the steel procedures of the world will do if you stop them from selling steel into this country, is that they will sell it to us in the form of fabricated or in the form of ships or in the form of cars or in the form of steel using product.

That means that our industry is going to have less employment and less chance to compete. So everybody loses when you do one of these deals.

Mr. FRENZEL. Thank you. I would like to talk about your statement on page 14 that if U.S. industry wants to modernize, the example in the EC should demonstrate that protection is not the way to accomplish it.

You skipped over that one kind of quickly, but as I understand it, it is that as soon as European steel was given the protection that it thought it needed by virtue of our willingness to negotiate a system of quotas with it, then it found itself less able to rationalize and to make its industry competitive.

Is that what you are driving at there?

Ambassador BROCK. Exactly. I want to commend to you the testimony of the steel industry. Dave Roderick, I assume he gave it—I just got a copy of it.

Mr. FRENZEL. He gave it last week.

Ambassador BROCK. That is what I thought. I wish every member of the committee would read that and read it again. It is a remarkably good and thoughtful statement, which I think disproves what he is saying. Because it says, in effect, we are supposed to do what Europe has done, and I plead with you not to do what Europe has done because I think that is precisely what caused Europe's problems. They got into the security blanket of quotas with virtually all their suppliers.

If you look at the list of their suppliers, only Australia and Japan sell more than 1 percent of the European market but every little country in the world has some kind of a quota arrangement trying to get into Europe. Fourteen countries as far as I know have some restraint on their sales of steel.

There are not a lot more countries than that in the world steel market. They have subsidized their steel production by quota, and by direct subsidies, and they are having one heck of a time rationalizing it and getting it productive.

Now you have steelworkers rioting in France because the French president says we can't keep on doing this, and we are being asked to do the same thing here? I don't understand that.

Mr. FRENZEL. I agree. As I see it, we have not rationalized at all and others have done a little bit but we have inhibited them.

I suggested to our panel including Mr. Roderick last week that they were trying to recreate British steel right here in America, and I guess that this is about as good a way to do it as any that I know of.

I would like to stay on page 14 but skip to the next paragraph where you talk about trade remedies. I prefaced my whole statement saying that the steel companies seem to take as a philosophical foundation for their bill that they are being aggrieved by unfair trade, and they have filed jillions of unfair trade complaints, antidumping, countervailing, et cetera, and yet every time they come to the moment of truth they try to negotiate their way out of those cases as they did with the trigger price mechanism, as they did with the European quotas.

Is there any reason that you are aware that an industry composed of companies as large as exist in this one not being able to use those remedies?

Ambassador BROCK. No, sir; there is no such reason.

Mr. FRENZEL. Does the process work for other industries?

Ambassador BROCK. Yes, sir; and it works for this one, too.

The trouble is not that the process doesn't work but the industry is impatient with it and has asked that it move faster. I can get pretty impatient with it, too. It is frustrating and it is costly, but it is a system that works and it works within the limits of U.S. law.

Mr. FRENZEL. I think the problem is they don't like the answers.

Ambassador BROCK. No.

Mr. FRENZEL. It is like the old play where the lady says, "Will you marry me?" And the fellow says, "No." The lady says, "Give me a direct answer."

You know, they are not getting back what they want. Therefore, the process is no good. But other industries, other complainants seem to be getting reasonable treatment from these laws. And again, the steel industry's history has been to make complaints for the purpose of negotiating a different kind of a settlement for which we have those two very recent and very dramatic kinds of examples.

But you know, when the trouble began in the middle 1970's, Mr. Gibbons and I kept saying to the steel people, for heaven's sakes, use the remedies, try them, try them, try them. They simply have never allowed them to run their course.

Ambassador BROCK. If you will look at the history of this exercise—not just here but in other countries—I would refer you to a very interesting chart on page 23 of Mr. Roderick's testimony called table No. 11. He gives the consolidated return on sales. It is net income as a percent of sales.

Starting with the increase in nationalization or subsidization, you have in France as a percent of sales, 16, 11, 14, 10, 11 percentage points of reduction in steel. No U.S. company could survive that profit record.

In the United Kingdom, it was 10, 3, 14, 9, 17, 22; in Italy, 4, 6, 17, 13. These are all negative percentages of sales.

Here we are looking at the wages, work rules and management practices as they evolved in that period of time during which protection was available. Those are precisely the years in which those industries got less competitive and not more competitive.

It was because of the Government intervention, not despite it.

Mr. **Frenzel**. I would like to go to the national defense item where you indicated that 3½ percent of our steel capacity took care of military requirements in Vietnam, and the peak in any war was 30 percent; is that the figure you used?

Ambassador **Brock**. I think it is right, but we can check it. It is something like that.

Mr. **Frenzel**. I am told that the current estimates claim that about 1 percent of capacity now satisfies our Defense Establishment.

Ambassador **Brock**. Let me correct myself. The high was during World War II at nearly 40 percent. But it is substantially less than that presently.

Mr. **Frenzel**. Forty percent.

I notice there is a section of the bill that relates to iron ore as well. I guess if one were to make the national security argument, it would be better to keep our iron ore against future problems of supply, but wouldn't this bill require us to use it up immediately? Is that your understanding?

Ambassador **Brock**. This bill would do one thing: It assures a jeopardy to our Nation's security if it uses up our ore.

Mr. **Frenzel**. I think the national security argument works the other way.

Ambassador **Brock**. I agree.

Mr. **Frenzel**. You and Mr. Gibbons were talking about wages and this is probably something that might be discussed with Secretary Baldrige later on. I want to talk about whether the investment that would be encouraged by this bill is satisfactory over the number of years in question to do the job. Discuss that with him.

It seems to be a rather relatively small amount of money to completely become competitive with nations such as you suggested in your testimony who have become very strong and very modernized but on the wage problem we have seen what has happened in automobiles given the protection. We have the union employees demanding to return to the previous wage levels and we have seen yesterday, which precipitated some strong remarks on your part, that General Motors gave some bonuses to more than 5,000 of its employees, that Mr. Caldwell, chairman of Ford, got about $7.3 million in bonuses and stock options and whatever last year.

It seems to me that that tells you exactly what is going to happen under a protected system, that we will simply spend it on ourselves and not become competitive as we need to become in the whole world.

I guess the net, to me comes down to how can an industry—I am talking here about automobiles and steel because in some respects they are almost integrated—that pays 22 bucks an hour for help, sell products to my constituents who earn 10 bucks an hour? How is it going to work over the long haul?

Can that kind of relationship hold up?

Ambassador **Brock**. No; the only way it can hold up is that if the political system intervenes to protect the high wage earner as this bill would do. But it will not work in a free economy.

I think it is fair to point out that if you look at the wage pattern what management and labor were trying to do is I think buy labor peace after the horrendous strikes of a couple decades ago. And yet if you look at the pattern of increases running from 1970 up through 1983, you start in 1970 at $5.61 an hour in this industry, and it had gone in 8 years to $13.56. That is when the trigger price mechanism was put on, if you remember.

In the following 6 years, it went up 50 percent to the present $21.69 per hour, AISI says $22.21 but we are talking about coming pretty comparable. I think the point is fairly made that in an economy which allows competitive flows to work and competitive disciplines to work, you would have to take a look at wage patterns, management practices, overhead, all the work rules and everything else to see what you have to do to compete.

The only way you can avoid facing those decisions is by coming to this town and saying to your government, "Protect me." That is what is being said.

Mr. **Frenzel**. My last question is in your considered judgment, after 5 years of quotas, will the U.S. steel industry be more productive and more competitive or less?

Ambassador **Brock**. Less.

Mr. **Frenzel**. Thank you.

Ambassador **Brock**. Less because they make a commitment in the legislation which I think is important in that they commit to plow back all their earnings into productivity. But that is a commitment that should have been made yesterday, whether we have a bill or not. So I don't think the bill changes that.

Mr. **Frenzel**. I agree with you. Obviously, if we want to keep these companies viable, they have to pay at least the current dividend. They have got to satisfy the wage needs which we have already discussed. They have to keep good managers and we have discussed some of the ways they have been doing that.

When you get done with that, one wonders whether the great leap forward—or whatever this 5-year plan is—is really going to make us noticeably different in this industry or not.

Well, I appreciate your testimony and I believe that your thrust is in tune with economic realism.

I yield the balance of my time.

Mr. **Pease** [presiding]. The Chair will exercise the prerogative of the Chair and ask questions himself now. I have a conflict with another subcommittee meeting and I have to leave soon.

Last week, members of the domestic steel industry claimed that even with the 15-percent import quota, the United States would still be the least restrictive steel nation in the world; that every other steel-producing nation restricts imports of steel to a greater extent than that represented by provisions of H.R. 5081.

Would you please respond to that statement?

Ambassador **Brock**. Mr. Chairman, I think it is probably 90 percent accurate. I am not sure that every country is more restrictive but most clearly are. The fact that everybody else shoots themselves in the foot is no argument for us doing the same.

Mr. **Pease**. What about the Japanese? What percentage of steel consumed in the Japanese domestic market is imported steel?

Ambassador **Brock**. I would guess it is very small. I have not seen the latest numbers, but I did see a statement by the Japanese steel industry that they have asked their importers to limit steel imports to about 3 percent. They are getting hit by what they call low-priced competition from Taiwan and Korea, and they don't like it.

Japan, more so than most, overbuilt. The world steel industry overbuilt in the 1970's, and Japan is operating about half their capacity. So it is particularly painful for them.

I am told their imports are about 5 percent at the moment.

Mr. **Pease**. Five percent.

Ambassador **Brock**. It is considerably less than ours, yes.

Mr. **Pease**. Would you characterize it as a mistake on the part of the Japanese, then, to limit their imports to steel in the current circumstance?

Ambassador **Brock**. I can't characterize what the Japanese do in their own national interest. We have to decide what is in ours.

I don't believe that it is the way to build a healthy country.

Mr. **Pease**. You don't think it is in the Japanese national interest for the Japanese to restrict imports of steel?

Ambassador **Brock**. If I were there, I wouldn't.

Mr. **Pease**. What bout the Koreans? What percentage of the steel consumed domestically in Korea would be imported steel?

Ambassador **Brock**. I don't think I have those figures, Mr. Chairman, but we can get them for you.

I am sure they are close to zero.

Mr. **Pease**. Is it contrary to the national interest of South Korea that they have imports of close to zero and exports of considerable amount?

Ambassador **Brock**. It is not contrary to their national interests to produce steel at the most competitive price in the world. They have about the most efficient steel industry there is, and they have done it by a very incredible effort, which I think in some ways is worthy of emulation.

Their workers and their management have decided that cooperation and joint effort are more constructive than conflict. They have got very productive work rules. Their wages, in my judgment, are considerably below what we would even think about accepting here, but they have decided to produce steel at a competitive price. If they want to do it, I would say "more power to them."

Mr. **Pease**. Do you suppose that the absence of imports of steel into Korea represents the fact that they can produce all categories of steel cheaper than any other country in the world or could there be some artificial restrictions involved there?

Ambassador **Brock**. I frankly would be surprised if there were not some restrictions, but again, I don't see what that has to do with us.

Mr. **Pease**. You said you think the Korean model is really worthy of emulation, presumably by us. Do you think Korean wage rates are worthy of emulation by the U.S. steel workers?

Ambassador **Brock**. I didn't say that.

Mr. **Pease**. You wouldn't consider that?

Ambassador **Brock**. No, why should we. I said earlier, perhaps before you came, that I think it is a great tribute to this country that we can pay $23 an hour but only if we produce $23 worth of product in that hour. That means if you want to pay high wages—and we do and there is nothing wrong with that; it is healthy—that we have to provide the tools with which workers can produce more tons per hour of effort so they in fact are producing that $23 worth of product.

The shortcoming in our system has been the failure to make the investment necessary to give our workers the tools with which to compete.

Mr. **Pease**. I think that is a key question. All of the Korean steel industry has been constructed in the last several years. By definition, it is new, state-of-the-art equipment.

Even if the American steel industry makes a Herculean effort to invest over the next several years, we are not going to reach the stage in the next 20 years where all of our equipment is essentially new equipment.

Given that that is the case, our steel industry is competing with the Korean steel industry and the components of cost involve raw materials which presumably don't vary a great deal for us or for them.

The use of machinery where they have a clear edge in the use of labor, where they have a very clear edge—paying about one-eighth of what we pay, perhaps—given those facts, do you think it is realistic to expect our industry to be able to compete successfully with Korean steel makers even if there is an effort to modernize the industry without some reduction in wages?

Ambassador **Brock**. First of all, I don't think Korea is going to put the United States out of business in the foreseeable future. They are considerably less a factor of imports than a number of other countries.

But even if they were a larger producer and even if the majority of their product were not being designed for an expanding Korea market, that doesn't answer the basic question.

The basic question is not whether we are going to do something in the next 20 years but whether or not—well, the basic question is whether we are going to do something different in the next 20 years than what we did in the last 20.

I think the fair question is, Why didn't we do what we should have done to be competitive in the last 20 years and what argues that that will change in the next 20?

Mr. **Pease**. Well, I would not argue at all with your contention that the industry needs to behave differently in the next 20 years than it has in the last 20 years, but I would return to my basic question.

Korea is just an example. Korea, Taiwan, Brazil, other countries, Mexico, there are a lot of countries around the world where wage rates are unacceptably low by American standards—unacceptably low even by standards of your $10 an hour workers that you think will be disadvantaged by this bill.

So the question is, If Korea, Taiwan, Mexico, Brazil, the other nations around the world, are coming on with new equipment at the same time we are, that theirs is all new and ours is only part new, and they have a substantial advantage in wage rates, is it possible for us to compete and not lose a steadily increasing share of our market?

Ambassador **Brock**. Absolutely.

Mr. **Pease**. Why?

Ambassador **Brock**. Because wages are not the total cost of production, and never have been.

Mr. **Pease**. I know.

Ambassador **Brock**. Most of our industry's wages are less than 10 percent. The on-line employees are considerably less than 10 percent of our GNP in this country.

Now, why do we always come down and put it all on the backs of the workers and say,

> Hey, you can't make $23 an hour or if you want to make that much, I have to subsidize you and take the money out of the hip pocket of the $10-an-hour guy because we can't compete with somebody who is paying $4 or $5 an hour?

Now, Congressman, that is simply not economic logic. If we want to compete, we have to compete on our turf and that means using the strength of this system, and that is in creativity. It is in skill and it is in investment and capital formation and savings.

Now, the Congress has a lot of opportunity to deal with some of those areas this year. If you can come to grips with the Federal deficit, you will make a heck of a dent in the capital formation capacity of this country. It is a whole lot more important than a 15-percent steel quota bill.

But I will tell you, we will have 15 percent steel quota bills coming up for every industry in the United States if we don't do something about the deficits that are sopping up the creative capital of the United States.

Mr. **Frenzel**. Will the Chairman yield?

Mr. **Pease**. Yes.

Mr. **Frenzel**. The staff has done work on the import penetration of those countries, and dividing it into consumption, the numbers are higher than the Ambassador suggests. In fact, it is more than a third for Korea. But I assume that is because of a variety of steel they don't produce internally.

I wonder if I might ask unanimous consent that the witness work up some numbers for us if it isn't unduly difficult so that we might compare the work that our staff has done.

Mr. **Pease**. Without objection, the material will be included.

[The information follows:]

IMPORT PENETRATIONS FOR STEEL MARKETS IN SELECTED COUNTRIES

[In percent]

Country	1975	1976	1977	1978	1979	1980	1981	1982	1983
United States	13.5	14.1	17.8	18.2	15.2	16.3	19.1	21.8	20.5
Canada	13.0	11.1	12.1	11.5	14.5	10.6	22.7	12.8	NA

IMPORT PENETRATIONS FOR STEEL MARKETS IN SELECTED COUNTRIES—Continued

[In percent]

Country	1975	1976	1977	1978	1979	1980	1981	1982	1983
Japan	0.4	0.2	0.3	0.4	1.4	1.1	2.3	3.4	4.9
European Community	7.4	10.0	10.9	7.0	7.2	10.3	7.1	10.1	9.9
Korea	72.0	53.3	49.4	54.2	46.0	44.5	32.0	38.4	NA
Brazil	31.2	13.1	9.8	7.6	5.8	5.9	9.1	4.8	NA
Mexico	14.6	10.4	10.2	19.7	21.4	32.2	34.3	21.3	NA
Spain	15.5	29.9	15.1	13.2	15.8	18.3	17.5	20.2	NA
Africa	16.5	5.3	3.0	3.1	1.7	2.0	2.6	3.3	NA
Australia	8.8	11.7	15.0	13.2	8.6	10.4	14.7	16.7	NA

Mr. PEASE. Well, I am happy that the spokesman for the administration feels as strongly about reducing deficits as you indicate that you do. We hope you are able to penetrate the higher circles of the administration and get that same degree of conviction.

I hope you are right in your conviction that we can overcome new machinery in our country and excessively low wage rates in other countries. We will have to do that by skill and I think that is the significant advantage of our workers. And by ingenuity and productivity, new ideas, certainly competition would spur that on. Let me——

Ambassador BROCK. May I just stop you for a second and take you back?

I don't know if I can quickly find it but I want to refer to Dave Roderick's testimony and again compliment him on this analysis that he did. In his first table, he compares costs per net ton shipped. This is on page 10 of Mr. Roderick's statement.

Congressman, I want to refer you to the fact that labor costs per ton in the United States were $137.61 and in the United Kingdom, which is the lowest number on this particular chart, $90. That is a difference of $47 a ton.

I assume—if we looked at some of the smaller countries that you have mentioned, that that $90 would go down a good deal. But I want to note for you that our financial costs are lower than others. I would wager that our energy costs are considerably lower than most of our competitors', and that is a major cost of product. I would also note for you that the freight from Japan, which is comparable to Korea, was $75 a ton approximately.

So there are lots of factors that allow us to pay higher wages without apology here in this country, but the most important point is that you can't continue to do that unless your productivity goes up as your wages go up. Otherwise, you soon will get into the situation we now find ourselves in where wage patterns substantially exceed the pattern of productivity improvement. Then you are going to get into a competitive circumstance where we can't handle it.

That is what we are being asked to face today but we are being asked to face it not by dealing with productivity, but by government intervention. And that is the wrong answer.

Mr. PEASE. I think you and I can agree on the need to increase productivity. There is no question about that.

I think for the time being, I will relinquish questioning and turn to Mr. Schulze.

Mr. **Frenzel**. He had to go to another meeting.

Mr. **Pease**. Mr. Jenkins.

Mr. **Jenkins**. Thank you, Mr. Chairman.

I just have one or two questions and I apologize for coming in late, Mr. Ambassador.

You indicate that some of our foreign steel competitors operate highly efficient, unsubsidized, world-class facilities. Primarily where are those unsubsidized facilities?

Ambassador **Brock**. Korea, Japan, Canada, and to a certain extent in the Nordic countries.

Mr. **Jenkins**. Are all of them unsubsidized operations?

Ambassador **Brock**. There are exceptions to that statement, but basically that is correct.

Mr. **Jenkins**. You indicated in your testimony and in your colloquy with the Chairman that what we really have to do is increase productivity and modernize. What specifically can the Congress do now in behalf of the steel industry to encourage modernization outside of your statement about the deficit?

Is there any particular legislation that needs to be passed or anything that we can do to encourage modernization?

Ambassador **Brock**. You have done a good deal, Congressman, in the tax bill of 1981 and the modifications that you adopted, I think, in 1982. You provided for the ACRS. You provided for tax leasing. You have delayed the implementation of the clean air standards, I think by 3 years, if I remember correctly.

You have contributed through those actions, in my judgment, to a very substantial recovery that is finally beginning to help the steel industry.

It was late getting to the steel industry. It helped everybody else first, it seemed like, but we do now have a solid recovery in steel. We are up to 80 percent of capacity, so profitability is returning.

You have given us the tools in the form of laws against unfair trading practices, which are being applied. We have made findings in a number of cases this year against countries, Brazil and others, that are subsidizing so we can stop that impingement of the marketplace.

So I think in a lot of ways you have done an enormous amount already.

If I had something to suggest it wouldn't be something we could consider in the short term but it might be that we ought to look at our tax system as a system sometime in the next year or two at the outside to see if in fact it makes sense for the United States, almost uniquely in the world, to continue to put its primary resource development on the taxation of income, savings and investment as opposed to consumption.

It seems that that is something we really ought to give serious attention to. But it isn't something you can handle in the short term and certainly not in the context of this particular situation.

Mr. **Jenkins**. You do not have any specific recommendations as to any legislation that the Congress could enact that would encourage the productivity or modernization of the steel industry?

Ambassador **Brock**. Not other than the bills you already have in front of you. There are improvements in R&D requests that have been made for extension of the R&D tax credit.

No. The answer is no, not new things.

Mr. **Jenkins**. So leaving aside for the moment the question of deficits, which I understand, of course.

Ambassador **Brock**. Yes.

Mr. **Jenkins**. The administration is making no recommendations whatsoever from the legislative standpoint that the Congress should attempt to assist the steel industry?

Ambassador **Brock**. Not beyond those things that have already been requested and that are either acted upon or under consideration, no.

Mr. **Jenkins**. So there is nothing more for us to do except deal with the deficit. You think the import problem is going to work its way out without devastating the steel industry?

Ambassador **Brock**. Yes, sir; I certainly do, yes, sir.

Mr. **Jenkins**. How long do you think that is going to take, since they have the tools now to modernize and to help the steel industry?

Ambassador **Brock**. These cases have a time certain to them. You can't delay them forever.

The industry has filed case after case on every country in the world. We have already had now voluntary restraints out of Brazilians, the South Africans, and Mexicans that are cited as three of the primary offenders by a lot of the industry.

So the remainder of the cases if applied will in effect round out what I think will be a very comprehensive approach to the problem.

We will cover with the present cases well over two thirds of all possible shipments from all possible offending countries. We will also cover in the specialty steel area on a global basis all shipments, period. We will cover under the EC steel arrangement all shipments from that part of the world whether they be fair or unfair, because that is the agreement that was reached last year.

It seems to me that that is a pretty comprehensive approach and it argues against stirring the pot and making it worse with this kind of legislation.

Mr. **Jenkins** [presiding]. Mr. Downey.

Mr. **Downey**. Thank you, Mr. Chairman.

Mr. Ambassador, as I understand, there is currently a section 201 petition before the ITC requesting import quotas that are similar to those embodied in 5081.

Ambassador **Brock**. That is right.

Mr. **Downey**. Can you tell me what significance, if any, there would be under GATT import quotas as a result of the section 201 proceeding and the legislation?

Ambassador **Brock**. Sure, under the GATT agreements, we are committed to make a determination of injury before we take an escape clause action. We are not required to prove unfair trade under a section 201 proceeding but we are required to prove injury.

No such finding is implicit in the U.S. law proposed here. So we would in effect be taking an action if we invoke the law that would violate every commitment we have with the system at large and with the individual countries that supply us.

In contrast, section 201 action would parallel what we did last year with specialty steel and, in that case, if in fact injury is found and if the President determines that relief is warranted, you make a determination as to the appropriate injury, either in the form of quota, tariff or both, and then you go to the country and you negotiate a settlement.

You still are going to be faced with a request for compensation but it is an entirely different legal process.

Mr. DOWNEY. Can you tell me—I am frankly ignorant of the timeframe—how long that process would take or what section we are in in terms of the petition now?

Ambassador BROCK. We will have the first injury consideration in the ITC, which has this case, in June. They will make a final recommendation to the President in July.

If I remember correctly, he has to make a final decision in September in terms of the acceptance or rejection or modification of the ITC finding.

Mr. DOWNEY. You cited as a matter of fact—I don't want to prejudice the findings that are going to be found certainly—a number of things in your testimony about the loss of production and problems of the number of workers that have been out.

To what do you attribute the problems? You mentioned lack of investment. What percentage of this would you say is as a result of subsidized competition?

Ambassador BROCK. Well, I would guess that subsidized competition comprises somewhere between 60 and 75 percent of our imports.

Let's round it off and say two thirds of the import part of the equation is in some form of government-supported industry, and that is something that we can and must ethically deal with under the existing U.S. trade laws.

You can't put all this problem down on the import side. We in the United States frankly had better management than a lot of other countries. We did not overbuild in the 1970's. We held our capacity to about 140 until recently when we cut it back this past year by another 15 million tons.

But others were building enormous new facilities and the combination of us holding at 140, the Japanese doubling to 150, and Europe continuing to improve its circumstance, 50 million new tons going into the LDC's alone, you created a world excess capacity that conservatively would be 150 million tons of excess capacity in the world. It is probably a good deal more than that, but at least that much is excess.

So laying aside the external factor and just looking at it domestically, I don't know what percentage to put on our domestic situation. But I do know that steel tonnage usage in the United States is half of what it was 30 years ago as a percentage of our GNP.

We use plastics, copper, and aluminum and other materials, using lighter steel, but it is stronger. So we have less tonnage involved. All of those things are part of a significantly changing matrix of factors that affect the steel industry.

I don't know whether anybody has put down hard numbers on it. I just know that not all of it is in the form of import competition.

Mr. DOWNEY [presiding]. Last time I had you here, I unfairly asked you about removing the quota on sugar in Mr. Gradison's bill.

Have you given that additional thought since the last time you were here?

Ambassador BROCK. It wasn't unfair at all. I found myself in a difficult position because I am not supposed to get into sugar questions because of my family circumstances.

But you would find it hard to get me to criticize you.

Mr. DOWNEY. OK. I understand your difficulty. I appreciate that.

I said then, and I will repeat now, I draw no comfort from putting you in a difficult position. It is just when you come here making an effective and strong argument, I may not necessarily agree with it with respect to steel, but it seems to me that a lot of the clout and impacts you have is diminished somewhat by a quota on sugar that costs consumers a great deal of money and protects the small industry at the expense of many, many powerful and important users aside from consumers.

Ambassador BROCK. I think you are right and I think we are diminished in other areas where we engage in similar activity.

Mr. DOWNEY. Thank you, Mr. Secretary.

Mr. Frenzel, do you have any questions?

Mr. FRENZEL. I do, Mr. Chairman, and thank you.

Mr. Ambassador, you and I have discussed Mr. Roderick's testimony at some length. You wouldn't object to leaving the record open for his commentary back, would you? He should have a chance to defend himself.

Ambassador BROCK. I hope I was complimentary.

Mr. FRENZEL. But you may have stressed parts of it that he would like to handle differently.

Mr. DOWNEY. Without objection, the record will remain open so that the staff at some future time can understand the——

Mr. FRENZEL. For Mr. Roderick and others who previously testified to respond.

Mr. DOWNEY. Yes. Fine.

Mr. FRENZEL. I have another question, Mr. Chairman, that relates to that amount of steel coming into the country unfairly because of subsidies.

I think a point that the chairman and I have made on numerous other occasions is when you establish a quota, you automatically freeze in the subsidy or make it higher, because the other country has a guaranteed part of the U.S. market.

Ambassador BROCK. That is right.

Mr. FRENZEL. Like we have done for Brazil.

Ambassador BROCK. That is right.

Mr. FRENZEL. We no longer have a good way to negotiate down the subsidy, and so what we do is not only increase the price of U.S. steel, but we are likely to increase the price of foreign steel sold in this country.

So if you are against subsidies, I assume you almost have to be against quotas, don't you?

Ambassador **Brock**. Yes; basically I don't make a distinction. They are one and the same, it just depends on who pays.

Mr. **Frenzel**. Thank you very much.

I yield the balance of my time, Mr. Chairman.

Chairman **Gibbons**. Mr. Ambassador, we appreciate your coming. You have done a fine job, as always.

Go back to that sugar quota issue for me.

I don't like that sugar quota, and I, as I recall the reason for the sugar quota was that crazy sugar bill we passed.

Ambassador **Brock**. That is right.

Chairman **Gibbons**. You know, the sugar bill, the crazy sugar bill that artificially decreased the price of domestic sugar in order to support an inefficient sugar industry in the United States, and the payments to sugar producers wasn't financially feasible unless we had a crazy quota bill.

So it seems like the problem really is us.

Ambassador **Brock**. Mr. Chairman, that is one of the great examples of world incompetence, world-class incompetence, but also world incompetence.

The problem really started, in my judgment, not here but in Europe. The cost of producing sugar in Europe is about $600 a ton; the world price is about $150 a ton. So what the European Community decided to do was to subsidize the sale of their surplus, because they were paying people so much to produce sugar in Europe that they were producing more than they could eat, and they have a much higher consumption rate than we do.

So in order to get rid of that surplus, they had to dump it on world markets. That broke the world price and that put great pressure on the people in this country. So the Congress turns around and passes a sugar bill which put a floor under the price of sugar in the United States and said, in effect, the Federal Government will buy any sugar below this price. That guaranteed the minimum floor—16½ cents was the price at the time, I think—and it allowed the Secretary of Agriculture and the President and myself to start discussing quotas if in fact that caused a problem.

Well, obviously it caused a problem if the world price was 7 or 8 cents a pound and we were paying 16½. The American housewives are smart, and American men that shop in the supermarkets are not going to buy sugar at twice the price if they can get it for half. So they started buying imports. It surged in. We were going to end up with Washington under 6 feet of sugar and to stop that, we had to put import quotas on.

Now, of course, that meant we stopped buying from friends like Brazil, so their debt got worse; from the Philippines and their debt got worse, and the Dominican Republic.

Chairman **Gibbons**. Things really got worse there, yes.

Ambassador **Brock**. Yes. And as you may have heard me say before, I don't know what the next dumb step is going to be, but it is going to be dumb, because we are compounding the felony now.

You can go back to that first subsidy in Europe that created the first surplus that broke the world price. But it isn't a matter of finding blame; it is a matter of how we get out of the mess.

That is why it worries me when we talk about this kind of bill before us, because these things tend to grow; they are contagious and cancerous. There is no end to this process. We do too much of it.

Chairman GIBBONS. Well, let's resolve to keep those kinds of errors at a minimum in the future if we can.

Ambassador BROCK. We will try.

Chairman GIBBONS. All right. Thank you, sir.

Ambassador BROCK. Thank you very much.

Chairman GIBBONS. Our next witness is Mr. J. Paul McGrath, Assistant Attorney General of the United States for the Antitrust Division of the U.S. Department of Justice.

In recent months proposed mergers and acquisitions in the steel industry have highlighted the importance of antitrust policy and possible restructuring of the industry. We are pleased to have with us the Assistant Attorney General, Mr. McGrath, to share with us the Justice Department's views on the problems of competition in the U.S. steel industry.

Mr. McGrath, welcome. I don't know whether this is your maiden voyage to our committee, but we welcome you here and we look forward to hearing from you.

You may proceed as you wish.

STATEMENT OF HON. J. PAUL McGRATH, ASSISTANT ATTORNEY GENERAL, ANTITRUST DIVISION, U.S. DEPARTMENT OF JUSTICE

Mr. McGRATH. Thank you, Mr. Chairman. It is a great honor to be here.

What I would like to do is ask the subcommittee to incorporate the written remarks we presented in the record.

Chairman GIBBONS. Yes, sir. They will be included in their entirety.

Mr. McGRATH. What I would like to do is make a few points that seem the most critical ones.

Chairman GIBBONS. Go right ahead.

Mr. McGRATH. First, obviously, I am pleased to respond to the subcommittee's invitation to appear here this morning to testify in connection with H.R. 5081, a bill which would place global quotas on steel imports.

I am pleased to add my voice to those of Ambassador Brock this morning and Secretary Baldrige, who I know will be here this afternoon, in expressing the very strong opposition of the administration to the enactment of legislation such as this which would arbitrarily limit imports on steel without regard to findings of unfair import competition.

Mr. Chairman, there is no dispute that a healthy steel industry is critical to a healthy economy and to our national defense. The availability of steel products at low cost is vital to many other industries: steel working, construction, transportation, and agriculture, just to name a few.

There is also no dispute that the steel industry has very basic problems, mainly stemming from declining demand and excess capacity worldwide. Also, the failure of large U.S. steel companies to keep their facilities up to the state of the art.

It is also beyond dispute that imports are putting increasing competitive pressure on the domestic steel industry.

In the context of all of that, we need to consider the best way to permit the domestic steel industry to restructure and adjust to the smaller demand it faces for its products and the overriding need to become more modern in this day and age. But at the same time, we need to do that without injuring the rest of the economy.

It is my strong concern that proposals such as H.R. 5081 are exactly the wrong way to try to guarantee appropriate steel restructuring. It is indeed true, I think, that this particular legislation is not well designed to permit an appropriate kind of steel industry restructuring, but it is very well designed to cause basic harm to the economy to result in the loss of probably thousands of jobs, to sock the American public with untold additional costs, and to injure the export trade of this country.

Although this bill is labeled a "Fair Trade Act," I believe that H.R. 5081 would be unfair to virtually every segment of our populus. To the taxpayer and consumer, it would add increased costs to their burden; many workers would lose their jobs; customers of steel companies would be disadvantaged with higher costs; and exporters of other products would be the victims of retaliation by foreign countries.

Curiously, the one industry that this bill is designed to assist, the steel industry, would be far less likely to accept the challenge it faces today and develop into a world-class series of competitive firms if this bill was enacted.

I would like to just briefly indicate why I have reached these conclusions.

First, if we slap artificial quotas on imported steel, that would be contrary to the GATT and it would undoubtedly lead to retaliation by nations around the world, which would result in loss of business and jobs in this country. Since so much commerce would be involved, it is likely that the extent of retaliation and thus the loss of jobs and the loss of export business would be substantial.

Second, since this legislation would almost certainly result in higher domestic steel prices, this would make the products of the customers of domestic steel companies more expensive and thus less competitive in our own market here and in world markets, thus resulting again in loss of business and loss of jobs.

Finally, as the price of steel becomes more expensive here, the products made from steel will be more expensive, and thus U.S. consumers will directly pay the price of this legislation.

Now perhaps one might argue that despite all those problems this legislation would still make sense if it would solve the problems of the U.S. steel industry. But I do not believe that it would solve those problems. It is a fundamental principle of our economy which has been proven over the years that competition is the spark that keeps our economic engine running. It is competition that goads firms to invest and manage their affairs in the most efficient manner. There is a serious risk that the kind of quota legislation proposed here would eliminate the most effective competition that would indeed goad the domestic steel industry into modernizing its facilities into the most efficient kind of business.

Thus the domestic industry, if it responded less vigorously under the umbrella of this legislation, would most likely remain a second-rate steel industry. Second, quotas traditionally push importers to the higher end of the line to more expensive types of products. If that happens here, the result will be that it will more difficult for domestic industry to develop its own abilities in the higher priced ends of the line, thus guaranteeing its future inability to be an effective competitor.

And at least to some extent, finally, artificially higher steel prices will actually result to some extent in a lower demand for steel and thus, to that extent, in lower employment in the domestic steel industry.

There are alternatives to this legislation, Mr. Chairman, and one is this: the target of this bill is said to be unfair competition and yet we have laws dealing with unfair import competition. We have laws against dumping, countervailing duty laws and we have the 201 procedures. The Commerce Department has committed itself to act expeditiously on all the cases that are before it. Its record indicates that it is doing precisely that. It makes absolutely no sense to avoid that mechanism which is in place and which is being effectively used today and to move to this kind of legislation with all its difficulties.

Perhaps even worse, there is a substantial concern that this legislation would have a particularly untoward effect on our trade relations with Canada, Japan, and the common market which are not now said to be importing substantial amounts of steel on an unfair basis.

There is another means by which the domestic industry can restructure itself, and that is through a wide variety of options that are already being availed of or can be availed of more in the future. The industry, for instance, has cut costs substantially and most of the companies in the domestic industry have indicated that they can make substantial additional cost savings. Many of the domestic companies have already found ways to make their production more efficient and to add modern facilities, and many of them have substantial additional plans to do so.

To some extent mergers are the answer. For example, the restructured LTV-Republic merger does result in a more financially able combined firm than in somewhat weakened two separate firms. The so-called minimills, which have taken over 20 to 25 percent of the domestic industry, are effective competitors for many steel products—not for all—but for many steel products.

More recently we have seen other proposals. For example, just recently it was announced that National Steel and Nippon-Kokkan were going to enter in a joint venture which would permit the expertise of Nippon-Kokkan, the second largest Japanese steel company, to be available to National Steel, which has proved itself to be one of the most efficient and modern of the U.S. steel companies.

In my own opinion the thing to do is to see how these free market methods of dealing with our economy work. There is every reason to believe they are working, that they will work over the future even better than they have in the past, and that the market system supported by effective operation of our fair trade laws is the answer to the current problems.

The current legislative proposal which we are discussing this morning is not an answer, indeed it is a serious problem in itself.

Mr. Chairman, I would be happy to answer or at least attempt to answer any questions that the subcommittee may have for me.

[The prepared statement follows:]

STATEMENT OF HON. J. PAUL MCGRATH, ASSISTANT ATTORNEY GENERAL, ANTITRUST DIVISION, DEPARTMENT OF JUSTICE

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to participate today in this hearing, which is examining the problems facing the United States steel industry in its efforts to become more productive and competitive in the context of enormous overcapacity both domestically and world-wide. I understand the Subcommittee is also examining legislation relating to steel, specifically H.R. 5081, which would restrict steel imports to fifteen percent of U.S. consumption. Before commenting specifically on the serious problems posed by such measures—or upon that bill specifically—I believe it would be helpful to review briefly the industry's current status and the role that competition does and should play in promoting efficiency and enhancing the welfare of consumers.

The steel industry is vitally important to our national economy. It would be seriously detrimental to our economy and to certain elements of the steel industry as well, however, to abandon our traditional reliance on free market principles because certain members of this industry at present are experiencing difficulty. Some members of the industry are currently doing quite well. The so-called "mini-mills," which are non-integrated, scrap-based companies, have prospered in recent years. These companies have incorporated modern equipment and efficient steel-making practices into their operations. Many of these companies compete favorably in terms of cost and quality with any steel producers in the world in the sale of certain products.

As most observers recognize, however, the integrated sector of our steel industry has not been doing so well. Although several producers have made strong progress toward modernizing their plants, more has to be done. Some of the integrated firms still have excess capacity, as well as obsolete and inefficient plant and equipment. Those conditions impose higher costs on those firms than are borne by their competitors who are not faced with those conditions, making it difficult for the weaker firms to compete with the more efficient domestic and foreign steel producers. Accordingly, many integrated U.S. firms need to take additional, far-reaching steps to cut costs substantially, and to modernize and restructure their operations so they can again be strong competitors in U.S. and world markets.

In my view, the best way for the integrated steel industry to become more efficient and productive is to preserve and promote an industry structure that maximizes competition. Competition is the most effective way to ensure the efficient and productive allocation of the industry's resources, and drives firms to produce the best possible products at the lowest possible prices. this is true not only with respect to consumer products, but also for products needed by industrial purchasers, such as automobile, appliance and machine tool manufacturers. By keeping prices at their lowest possible level, competition maximizes the well-being of consumers.

Competition can exist, of course, among both domestic and foreign producers, and it benefits our economy regardless of the nationality of the competing firms. Not only do actual imports generally exert competitive pressures for domestic firms to maximize their efficiency, but the threat of entry by new foreign firms, or of increased imports from such firms already in the market, can be a significant check on the ability of U.S. firms to raise prices above competitive levels. Foreign producers who sell steel products in the U.S. therefore can play an important role in providing the benefits of competition, as long as they are not restrained from participating in this market. Our antitrust enforcement policies fully take these principles into account, and we have responded when proposed activities or transactions threatened seriously to reduce the competitiveness of the industry or to increase the likelihood that anticompetitive activity could successfully occur.

Since the late 1960s, foreign steel producers have played an increasingly active role in U.S. markets, chiefly as a result of lower costs of production and declining ocean transportation rates. Undoubtedly, increases in the volume of imported steel have exerted some competitive pressure on U.S. producers. Over the same period, however, most important steel products have been subject to some form of trade restriction, including voluntary restraints, formal or informal quotas or a trigger price mechanism. While the precise effects of these restrictions have been debated, they assuredly have lessened competition from foreign firms selling steel in this country.

In addition, since the 1960s, U.S. integrated steel producers have engaged in intensive efforts to obtain quantity limitations on imports of steel products. In 1982, multiproduct antidumping and countervailing duty actions led to the EEC carbon steel arrangementthat imposed on the European Economic Community producers an overall quota, set at a percentage of apparent U.S. consumption of a wide variety of important steel products. In July, 1983, new quotas and tariffs were imposed on many stainless steel products as a result of Section 201 actions filed by U.S. producers. These and other trade actions apparently have led to voluntary actions by several foreign producers restricting their exports into the U.S. Finally, there is at present a dual effort aimed at limiting all steel imports to 15 percent of U.S. consumption through legislation supported and promoted by the industry (such as H.R. 5081) and the Section 201 escape clause action filed before the United States International Trade Commission by Bethlehem Steel and the United Steel Workers.

I am not oblivious to the arguments that trade ought to be "fair" as well as "free." I recognize that foreign firms or governments can pursue policies, most notably by dumping or subsidizing exports, that distort the operation of the market and injure U.S. firms. I believe, however, that the framework of our existing unfair trade laws, which authorize imposition of duties to offset these practices, is adequate to deal with such abuses and to remedy injury to our firms.

Because of our fundamental belief in the desirability of promoting competition, the Department takes a dim view of proposals that would inappropriately restrict imports. We believe it is squarely in the national interest to promote, to the fullest extent possible, vigorous competition in the domestic steel industry—as in other industries. Foreign firms can, and ought to be allowed to, play an important role in providing needed competition that spurs all members of the industry toward realizing their maximum potential and that maximizes consumer welfare.

Having made those general points, I would like to address the remainder of my comments to the proposal for across-the-board quotas on steel imports that is being considered by the Subcommittee. H.R. 5081, the so-called "Fair Trade in Steel Act of 1984," embodies two basic features. The bill is intended, first, to cut steel imports back to 15 percent of U.S. consumption and, second, to require a complete recycling of the revenues of domestic steel firms into steel investment. More specifically, the bill provides that there will be an overall quota on imported steel of 15 percent of estimated U.S. consumption, with separate quotas being set at various percentage levels for each specific steel product category. A 25 percent quota also would be imposed on imported iron ore. Quotas would be in force for five years and could be extended for another three years at the President's discretion. The bill allows steel consumers to petition for limited increases in the quotas for specific products in short supply. The bill also allows the President, after a factual examination by the International Trade Commission, to extend quotas or import fees to fabricated steel mill products not covered originally. Such extensions of coverage would occur where it appeared that increased imports of fabricated products were undermining the effects of the quotas on covered goods.

The reinvestment aspect of H.R. 5081 would be implemented through continuous monitoring by the Secretary of Commerce of the "cash flow" of domestic steel producers. The Secretary would be required initially to determine whether "substantially all" such cash flow would be invested in the steel sector and, if not, he could delay implementing the quotas. Thereafter, the Secretary would make similar determinations on an annual basis and could modify or suspend the quotas if he found domestic producers were not reinvesting their revenues into steel investment as required by the bill. The Department of Justice strongly opposes both features of H.R. 5081.

The marketplace effects that steel quotas are sure to create will seriously harm not only purchasers of steel and steel products but elements of the steel industry itself. First, steel quotas will tend to increase steel prices and thus increase the prices of finished products composed of steel—directly injuring consumers of those proeducts. Second, because increased steel prices will render many steel fabricators and other users of steel inputs less competitive than they are now, increased prices may stimulate them to take costly defensive actions. Such actions might well include substituting non-steel materials for steel, moving production off-shore, seeking their own trade protection, or simply curtailing operations. Because higher steel prices will, in turn, further reduce steel demand beyond the slow secular decline that is now occurring, they will further reduce the opportunities for steel fabricators and their employees.

Third, quantity limitations on steel imports would undesirably insulate U.S. producers from a potent source of competition and would tend to dull the incentives for U.S. firms to engage in the modernizing and restructuring of their operations necessary to make them more efficient and productive. By reducing the incentives to maximize efficiency and production, these types of restraints would allow our industry to pursue policies that, in the long-run, are harmful to U.S. consumers and to its own members and employees.

A false optimism among producers and workers may slow the painful but ultimately essential steps toward rationalization, particularly if producers and workers come to expect permanent protection from international competition. Such a result would leave producers even more vulnerable to efficient competition in the future. This, in turn, will increase our firms' reliance on quotas and will make it even more difficult for them to be removed.

The recent history of steel industry responses to market forces is instructive on the harmful long-term effects of import quotas on the competitiveness of the domestic industry. Despite the existence of import restraints during most of the 1970s, integrated steel producers did very little to reduce their costs, to improve their product mix and to modernize and consolidate their facilities. It has only been with the competitive pressures of the marketplace during the last two or three years that integrated steel producers began to consider truly significant changes in their operations. To remove those pressures now would be to ensure a return of the policies of the past that are largely responsible for many of the problems that currently face the industry.

The underlying trade policy premises of H.R. 5081 are confused and flawed. H.R. 5081, and comments made in support of it, have postulated that: a) almost all imported steel is "unfairly" traded; b) existing unfair trade remedies are inadequate to deter unfair imports; and c) an acorss-the-board quota is an appropriate remedy for the industry's ills. None of these three assumptions is true. There is simply no basis to conclude that the bulk of steel imports are unfairly traded. Indeed, to the contrary, imports from such major suppliers as Japan and Canada seem to be competing in the U.S. without any serious indications that dumping or subsidization is occurring. Second, as Secretary Baldrige has said, the Commerce Department has vigorously enforced the provisions of Title VII (of the Tariff Act of 1930, added to the Tariff Act by the Trade Agreements Act of 1979). Unlike the remedies under current trade laws that are applied selectively only to trade that is, in fact, unfair, the 15 percent quota would be overly broad, restraining "fair" and "unfair" trade alike.

Third, because across-the-board quotas are not an "unfair trade" remedy recognized by the GATT, unilateral enactment of quotas by the Congress would violate our obligations under that agreement and subject us to very substantial claims for compensation and to acts of retaliation by our trading partners. The targets for reprisal could be virtually whatever industries our trading partners chose. As a result, other important sectors of the U.S. economy could pay a high price for the erection of quotas as a steel sector trade policy.

All forms of import protection impose certain costs on the U.S. economy. Some forms of trade protection are likely to be much more costly than others, however. Import relief in the form of quotas—especially percentage quotas as proposed in H.R. 5081—is likely to be the most expensive way of achieving any potential increase in U.S. steel production and employment. There are three broad reasons for the especially high cost of quota relief.

First, much of the benefit of foreign competition would be lost if a general plan of import protection were adopted. The reduction of competition is likely to be especially great if import protection takes the form of quotas, and percentage quotas of the form advocated in H.R. 5081 are likely to maximize the possible injury to domestic competition. For example, if domestic producers reduced output (causing an increase in the price of steel in the U.S.), foreign firms facing percentage quotas would not be able to respond by increasing their exports to the U.S. Indeed, they would have to reduce their shipments in proportion to the overall consumption decline.

The second reason why quota relief is especially undesirable is the fact that foreign producers or governments are allowed to capture the benefits from the trade restriction. Country-by-country quota restrictions, such as those proposed in H.R. 5081, are likely to lead to each country's producers collectively limiting their exports to the United States, with the likely effect that the price of foreign steel will increase. And, the excess profits generated by the quotas will be enjoyed by the foreign competitors themselves. There is evidence, for example, that the Japanese limitation on the export of cars to the U.S. has provided Japanese producers with additional profits that have enabled them to keep technologically ahead of their U.S. counterparts. In other words, a large proportion of the cost to domestic consumers may be transferred to foreign producers or governments rather than U.S. producers or the U.S. government.

The third and final reason why I believe the 15 percent quota to be unwise is the effect that such relief could have on the decisions that the Antitrust Division must reach regarding mergers of domestic steel producers. Our law enforcement responsibilities, as well as sound economic policy, require us to take account of the extent to which legal restrictions limit the competitive significance of foreign competition. If foreign competition is legally restrained, the Antitrust Division must be much more concerned about increases in concentration among domestic producers. If foreign competition, free from trade barriers, can effectively thwart any attempt at anticompetitive abuse by domestic firms, increases in domestic concentration become much less of a concern, and the antitrust impediments to the restructuring of the domestic industry become far less significant.

Our fundamental objections to the quota restrictions imposed by H.R. 5081 are neither cured nor ameliorated by its provisions that would require reinvestment of "substantially all of the cash flow" received by steel companies in steel plant. Rather, these provisions represent an unwise and, we believe, unworkable effort to create an industry-wide investment policy for the steel industry through federal government supervision and compulsion. This may be viewed as a sort of sectoral industrial policy; as such, it is subject to the same serious flaws as other proposed attempts to create government supervised and controlled "industrial policies." Simply put, its fundamental flaw is that it requires the government in effect to second-guess private business decisions. That is a task that the government simply is incapable of performing as well as the managers of the affected firms. Those private managers possess far greater information and expertise how best to utilize the resources available to them and to make investment and allocation choices among competing options that will maximize the chances for their firms' long-term success. Second, those private managers have a far greater incentive than government bureaucrats to make optimal choices, for they are ultimately answerable to their shareholders and their successes (or failures) will be directly rewarded (or punished) in the marketplace.

Although it is true that H.R. 5081 only proposes a regular, detailed monitoring of steel producers' cash flow, not an all-out government supervision of production and marketing decisions, H.R. 5081 is still far too potentially intrusive. The investment concept of H.R. 5081—which is to see that all steel sector funds stay in the steel sector—is a kind of "straight-jacket" approach that will not effectively aid steel industry recovery. For some producers, a requirement to dedicate all steel cash flow to steel functions would add to already excessive capacity or otherwise expend resources less efficiently than resources freely allocated. Moreover, such a requirement will likely force inefficient investment decisions of all firms and lead to intrusive bureaucratic constraints on their economically motivated business decisions. Thus, we view these provisions of H.R. 5081 as counterproductive, costly, inefficient and ineffective.

Mr. Chairman, I recognize the economic hardships facing the U.S. steel industry and realize that its path to economic prosperity will not be an easy one. However, I do not believe that consumers of steel or steel products—or the nation—will be benefitted by increased protection from foreign competition. The best way in which this industry can improve its financial condition is to engage in the kind of modernization and restructuring I have mentioned earlier and to maximize—rather than lessen—the competitive pressures that drive the industry toward maximum efficiency and productivity. In short, the best way to meet foreign competition is to ensure that our domestic industries are as competitive as possible rather than to rely on protectionism. For those reasons, we strongly oppose enactment of H.R. 5081. I must also advise you that the Administration has determined that enactment of this legislation would not be in accord with the program of the President.

Mr. Chairman, that concludes my prepared remarks. I trust that these remarks are responsive to your inquiry and will be of assistance to the Subcommittee. I would, of course, be happy to answer any questions you or any members may have.

Chairman GIBBONS. Mr. McGrath, you have made a very fine statement and having visited a number of these nonmarket economies, I can agree with you wholeheartedly that it takes competition, vigorous competition, in order to bring about efficiency. You cannot just mandate efficiency. I have watched nonmarket countries trying to mandate efficiencies and they just don't get it. It takes vigorous competition that we espouse in this area to do it.

Being a lawyer myself, and knowing only a very slight amount about the antitrust laws and about your significant role in all these decisions, I realize you may not be in a position to answer some of my questions. I want you to know that I am not treating you as a hostile witness. If I get further into some of these things than I ought to be going, please let me know.

Would you please discuss for us the recent decision by the Justice Department regarding the merger of LTV and Republic Steel including the initial determination to oppose the merger, the ensuing consultations with the companies involved to restructure the acquisition, and the final approval by your Department.

Mr. McGRATH. Yes; I would be happy to, Mr. Chairman.

Chairman GIBBONS. All right, sir.

Mr. McGRATH. I will try to do it as succinctly as possible.

Chairman GIBBONS. All right.

Mr. McGRATH. Let's go back to around February 13 of this year. At that point we were faced with this situation: There were two proposed mergers before us, one was LTV-Republic, and the other was United States Steel-National Steel. There was also a good deal of publicity that there were more mergers to follow.

The road it looked like we were going down at that point was that unless something happened within a relatively short time we would have perhaps three, perhaps four large steel companies in this country.

I think all the modern microeconomic analysis that has been rigorously done indicates that that kind of severe industry contraction raises severe competitive problems, and that in particular there is a substantial risk in that kind of situation that prices would be artificially higher.

Now, with that in mind, we looked very carefully at the mergers before us and we found that we had to break each merger down into various market segments because the steel industry differs a great deal depending on whether you are talking about a product such as steel sheet, which can only be made in a large integrated mill under today's technology, or rods and bars, which can be made in various kinds of facilities. We also found that the industry differed a great deal in terms of international competition from product to product. For example, the kinds of pipes used for casings in oil wells tend to be a very standardized product, moved heavily in international trade, and importers have, therefore, taken a very substantial share of the U.S. market.

On the other hand, we found in the case of sheet steel that the situation is quite different. Imports have tended to be fairly low, and the main reason seems to be that steel typically is made in accordance with a large number of different specifications and, thus, in fact is a quite differentiated product.

Now, in looking at the proposed mergers, therefore, we found in the case of LTV-Republic, that there were really only two parts of the market that raised a competitive problem and those were the sheet markets, carbon and alloy sheet and stainless steel sheet. The reason that a problem was raised was that the combination of the two mergers—LTV-Republic and United States Steel-National—would have resulted in the combined two companies having about 45 percent of the U.S. market.

Chairman GIBBONS. Of the sheet market?

Mr. McGRATH. Of the sheet, yes. And imports had not penetrated that market substantially. One reason was the relatively differentiated nature of the product, and another was the effect of import restraints, particularly in the case of the common market and Japan, which had artificially limited the imports of particularly carbon and alloy sheet into this country because those are lower end products.

Thus, we concluded on the basis of all that that there was a substantial problem under section 7 of the Clayton Act if the two mergers went through unrestructured.

This was not a judgment call made on the basis of some abstract policy, it was a law enforcement decision based on the conclusion that permitting the mergers in their current form would have violated section 7 of the Clayton Act.

Thus we announced that decision on I believe February 15.

We also announced at that time, however, that we were willing to work with the companies to see whether alternatives to the proposed transactions could be worked out. It happened, as a matter of timing, that the first transaction we reached a final conclusion on United States Steel and National Steel. They indicated to us, as they have made public, that they were in a hurry to see whether they could indeed put together that merger or whether they would have to back away from it.

We did have discussions with them and they concluded that the amount of divestiture that we were going to require as the price of not blocking the transaction was too substantial. Therefore, they announced that they were withdrawing that transaction and, of course, more recently National has announced the joint venture with Nippon-Kokkan.

Chairman GIBBONS. Let me interrupt you, you say you made that decision prior to making the LTV decision, is that right?

Mr. MCGRATH. Yes; that transaction was abandoned approximately 2 or 3 weeks before the LTV-Republic merger as restructured was approved.

Chairman GIBBONS. All right.

Mr. MCGRATH. After United States Steel and National Steel announced that they had abandoned their transaction, we engaged in quite extensive negotiations with representatives of LTV and Republic. It was happenstance that the timing was after termination of the United States Steel-National Steel transaction but, nevertheless, that is when the discussions took place.

Those discussions, as in the case of United States Steel-National, involved the question of how much of the capacity of the two would-be merging parties would be divested and ultimately we concluded that the transaction could proceed if there was a binding commitment to divest two plants. One was a plant at Massillon, OH, which is the only cold finishing facility of Republic Steel, thus eliminating any increase in concentration in stainless steel; the other was a plant at Gadsden, AL, which is a carbon and alloy sheet steel plant, which had the result of lessening substantially the overlap or the increased concentration in carbon and alloy sheet that would have resulted from the merger.

Looked at numerically, when we had the two proposed mergers before us, the increase in the index we used that would have resulted in carbon and alloy sheet would have been almost 500. The increase, given the abandonment of the United States Steel-National transaction and the divestiture of the Gadsden plant, was only about 130 or about one-quarter of what we were faced with in early February.

That increase was still a slight bit over our guidelines' bright line number. However, we took into account two other principal factors. One was that our analysis of the LTV-Republic transaction did indicate that there were several tens of millions of dollars of economic efficiencies that could be earned through the combination of the two firms, particularly due to the proximity of two of the large plants owned by each company in Cleveland.

Second, we took into account the fact that the weakened financial status of Republic Steel indicated that there was substantial question whether, if Republic stayed on its own, it would be as significant a competitor in a couple or three years, particularly if there was some downturn in the steel market at that point as it is today. Thus, looking at it in numerical terms, there was reason to believe that Republic's current market share overstates its competitive significance.

So, for those reasons, I concluded that the restructured transaction should be approved and we proposed a consent decree to the district court here which the court is in the process of considering.

Chairman GIBBONS. Thank you.

Mr. MCGRATH. I am sorry, that was a little longer than I planned.

Chairman GIBBONS. No, thank you. That was a very good explanation.

I have more questions but I don't want to monopolize your time. I will come back to you.

Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman.

I feel the same way, the same way the chairman does about groping in the area of your expertise, Assistant Attorney General McGrath, but I guess what the committee really needs to know is does the steel industry of the United States have the capacity to rationalize under the existing antitrust laws of the United States of America as interpreted by this administration and the Department of Justice? Certain mergers have been frowned on, on other mergers the Justice Department has let the light shine, and I think there is at least some confusion, if not in the industry perhaps behind this table about what is permissible and what is not.

If we are going to operate at capacity levels which are substantially below previous years there has to be some rationalization. It has occurred in other countries. It occurs here. One of the bogeymen identified is the antitrust laws and their administration by whatever administration is in power at the moment.

It is alleged that if we are going to have good industry we have to put some good beginnings of some companies' plants together with the good of other plants and so on. So I will restate the question because I have already overdone it, can the industry under the current laws as you interpret them do a job that is necessary to produce competitive steel in this country?

Mr. MCGRATH. I don't think there is any doubt it can. I think to the extent people have pointed at the antitrust laws as a problem, they are simply pointing at a scapegoat. I say that for this reason: it is clear that two things are critical to rationalization of steel capacity, one is the reduction of capacity, and two is the modernization of what is left.

I have seen no indication that those two steps would be facilitated to any substantial degree by a contraction of the industry to only 2, 3, or 4 companies.

To be sure, there are situations where companies have plants that can be more effectively operated in tandem. There are very few, however.

There are many ways to accomplish that. For one thing, there is, in the case of LTV-Republic, which had probably the outstanding situation in the industry, an argument that two plants owned by separate companies could be more effectively operated together. That was a factor taken into account in approving that merger. Indeed, I spent a lot of time looking at those two plants personally and having our experts look at them so that I could verify to the extent I could that that was the fact.

However, I think that these situations are few and far between. There are many other ways which the industry can rationalize through companies doing it on their own. For example, through closing plants and restructuring other ones; through bringing in joint-venture parties, and so on. Various companies are in the process of doing it various ways.

I want to emphasize that the concern, however, about simply letting the companies get together, whittling them down to a very few, is not an academic concern. Thus, such contraction should be permitted only if there is overwhelming evidence that it really will help the American public. There is strong evidence that when there are only very few companies in a given industry, prices may be artificially higher.

The automobile industry is a classic example when import competition is substantially reduced, and perhaps necessarily so to give that industry a window of opportunity to modernize, where recent studies have shown that domestic prices have been substantially higher than they would have been in the face of that competition.

I think the evidence is very strong that we paid a price not just from the elimination of the number of cars that would have come in from Japan, but also in the increase in market power that the domestic companies have had. They have been able to charge hundreds of dollars additional per car because there are very few companies making the pricing decisions.

The long and the short of it is if we permitted the steel industry to get into that situation, it is very likely that the cost to the American consumer would be billions of dollars. So that is why I say that the antitrust laws really are a cautionary note. We should not pay that price unless we are getting something for it.

Thus, in looking at individual mergers, the real question is, Is there an economic efficiency? Is there a real scale efficiency or some other sort of very large economic efficiency which can be gained?

But I should caution that two kinds of profitability to the companies that should be not looked at as an economic efficiency are, one, the ability to jack up prices simply because there are fewer companies; and, two, mere accounting changes that occur from tax consequences when companies merge.

Mr. **Frenzel**. There is a problem and the problem is that previous administrations took that attitude about the New York Central Railroad and the Pennsylvania Railroad and to join them would create this huge conglomerate which would control transportation and have the ability to fleece its customers, both passenger and freight. But we dinged around with it long enough until we got them into a position where when they merged they were able to merge enough weakness to sink both of them.

There is a feeling that that is your attitude about the steel industry.

Do you deny that?

Mr. **McGrath**. I do deny it and I think indeed the Penn Central merger is the classic example of what I am talking about. When those two firms announced they wished to merge there was a long proceeding considering the question of what efficiencies were going to result from that merger. Of course, the argument was made that there were many individual kinds of efficiencies which would result, and indeed there were findings to that effect. All of those findings turned out to be wrong.

The combined company probably was a good deal weaker than the individual parts.

I would suggest, therefore, that we should look very carefully at efficiency claims. That industry, however, is not necessarily a good parallel in other ways because the railroad industry had been ruined by decades and decades of the kind of regulation that we are now, thank God, getting away from in this country.

Mr. **Frenzel**. If you let me interrupt for a moment, that is why I drew the parallel. The steel industry is probably second on the list of industries that have been messed around with by their Government. We have told them how to operate, when they could raise prices or rather more appropriately that they couldn't raise prices, and as a result, we have been a principal contributor to the distress into which that industry has fallen.

Personally I would say if there is a quota system on I certainly wouldn't think merger was very good, that it would be dangerous from the standpoint of what is going to happen to the prices of steel products without the effect of foreign competition. On the other hand, if we don't have a quota bill it seems to me that your organization has got to look at efforts on the part of the industry to consolidate with a little more benign eye than seems to have been the custom in the past.

There are allegations, for instance, that your original disapproval of LTV and Republic may have caused our companies to look offshore for partners and thus we have encouraged a different kind of consolidation to which I don't object, except I don't think we should give greater incentive for that kind of consolidation than for internal consolidation.

I guess what I am suggesting is that if we can maintain a relatively open world market for steel then I don't think you have to be or at least I hope you will not be so concerned about antitrust problems that are wholly domestic.

Mr. **McGrath**. That is absolutely true. To the extent that the market for steel is an unrestrained one, it makes concerns about domestic mergers vastly less because then we have real competition from the strong companies overseas and then they become as much of a part of the domestic market as a company in Pittsburgh or Chicago or Cleveland—absolutely that is true.

Mr. **Frenzel**. I thank you for your testimony.

Chairman **Gibbons**. Mr. Downey.

Mr. **Downey**. Mr. Chairman, I just want to thank Mr. McGrath for his testimony. I find it very useful. I just want to get in my mind some of the dates here. One of the things that concerned me was that I thought that the initial disapproval of the LTV-Republic proposed merger led to the cancellation of the proposed acquisition that United States Steel and National. They figured they would not be able to make the marriage as a result of your activities in LTV-Republic.

Is that a fair sequence of events or if not, will you set it straight for me?

Mr. **McGrath**. That is the sequence of events. I don't know what motivated United States Steel and National in walking away from their transaction because it was clear that divestitures of some facilities would have resulted in an approved transaction and it was also clear that they were talking about reducing their capacity. In the face of that I don't know what motivated them.

Mr. **Downey**. We are not experts in antitrust laws, but it seems to me from looking at the events superficially, that the proposed merger of NKK and National going ahead appears at least on the face to provide a policy that we have followed, that there is an advantage for acquisitions of foreign steel companies over those of domestic steel companies as a result of the policy.

How would you comment on that?

Mr. **McGrath**. I wouldn't say there is an advantage. I think the recent events proved that out. In the case of LTV-Republic for the wide variety of facts—some of which I summarized—a domestic merger did make a good deal of sense. In the case of National-Nippon-Kokkan although I cannot talk about all the particulars about it as obviously that transaction is still to be passed on by us, I can make these comments. That transaction is not an acquisition, it is really in a way a classic joint venture.

The U.S. company I gather will still be managed by Mr. Love and the others who have been managing it. It will give the U.S. company the advantage of extensive Japanese technology from one of the most technologically advanced companies in the world, and from an antitrust point of view I think the key is this, it gives diversity. National has shown itself to be one of the most innovative, most effective companies competing. It has also shown itself to be less willing to go along with price moves than some other companies in the industry.

There is a lot to be said from a competitive point of view, antitrust and otherwise, for maintaining National Steel as an independent, healthy competitor and I think that the complaints by some of its U.S. competitors about this transaction is probably proof that that is true.

In other words, the added competition that National will present on the basis of this joint venture obviously may make life a little tougher for its competitors but that is the whole idea of our economy.

Mr. DOWNEY. Let me ask you two other questions if I may that don't relate directly to steel but maybe it will answer questions I have had about the whole question of antitrust policy.

In particular we have two—I have two concerns and I know one is shared by other Members of Congress. To what extent do you weigh the fact that enormous sums of capital are potentially diverted in some cases to acquisitions as opposed to improving the ability to compete? I again apologize for the vagueness of the question but it is something I know that members here have looked at and are concerned with, especially in the oil industry.

Let me add a correlary to that question: I know Felix Rohatyn has written in the New York Review of books about this. This was prior to the very wise restructuring of your decision with respect to LTV and Republic. But the fact that a lot of capital in the oil industry is going to be used for acquisition as opposed to going out and looking for more oil. How would you comment on both those questions—using capital for mergers, and in the oil industry in particular the fact the capital is diverted from looking for new supplies.

Mr. MCGRATH. First I would like to say that I think that is a very important issue, not just because Mr. Rohatyn has written about it, but I think it is a matter for serious attention by the Congress generally and by many parts of the executive branch.

I think so far the evidence indicates, however, that there is not a problem or at least not a substantial problem, and let me use an oil merger as an example. If the Standard Oil Co. of California decides it is going to acquire Gulf Oil, obviously it has to get together a capital pool, in that case perhaps a little over $13 billion, in order to acquire the stock of Gulf.

It borrows a good deal of that capital. Now, however, that capital doesn't disappear down a black hole on the day of the closing of the merger, it goes for the most part to the shareholders of Gulf, who then make their choices as to what they will do with it.

A substantial percentage of the stock of Gulf Oil is owned by institutional investors, pension funds, and other institutions. So far, it is estimated that a very high percentage of the money that will go to the Gulf shareholders will simply go back into the capital markets in one fashion or another.

Thus, the net loss to the capital markets is not $13 billion, it is something a good deal less than that $13 billion.

If you really want to calculate what the aggregate cost or advantage to the capital markets is, you really have to go through a number of other factors such as, do transactions like that stimulate other savings, other investment, and so on?

At least to this point, I know people who have spoken on the bottom line of the equation, who have access to the facts such as the Fed, have not indicated a concern that because of transactions like that we are imposing such extreme costs on our capital markets that there are difficulties.

Obviously, if there was a factual showing that such costs were being incurred, that it was distorting the capital markets, and that in a long-range term it was adversely affecting interest rates, then one might want to do something about this.

But I would caution that unless there really is that kind of proof we do not want to take action for this reason: an active merger market is one of the keys to our free market economy because the whole concept of the free market economy is that it must be able to adjust to enable us to allocate our resources in the most efficient kind of way.

Mergers and acquisitions are one of the important mechanisms by which our economy self-adjusts. I think an indication of that fact is that last year, it has been estimated that as much as 40 percent of the merger and acquisition activity was essentially divestitures, divestitures of businesses by one company or another that had decided that they were not making as good a go in that business as they would like and they sold it off to have somebody else make a go of it. That is exactly what should happen in our economy, and there is a great concern that if we pass a law that artificially limits the merger market we may in a very basic way affect the way our economy works.

Now, that isn't to say that there aren't a fair number of dumb mergers consummated every year, there clearly are. But it is to say that, overall, our economy works better if the individual businessmen and businesswomen who make these decisions are permitted to make them on their own.

Mr. DOWNEY. The other part of the question if I might, Mr. Chairman, is this question of oil reserves and the process of going after people with proven reserves, and the question of the impetus for finding their own and so on?

Mr. MCGRATH. Yes. Again, there is an economic question there. That is, have we reached a point or are we likely to reach a point where mergers will inhibit the extent of exploration for oil reserves? I don't really think there is any indication that we have either reached that point or are approaching that point.

There are a large number of factors, companies, firms, partnerships and so on, in the oil exploration business. They tend to invest when it is economically worth it and to lessen their investment when it is not. It happens that today it is less attractive than it was 5 or 6 years ago because of the decline in the price of crude oil and a number of other factors.

But I don't think that there is any indication that the decline by a few numbers in the companies engaged in exploration is going to make that much difference.

You do see basic economic forces at work in the petroleum industry. The people running it are obviously making decisions that some adjustment in the number of companies, and in the ownership and configuration of companies, makes sense, and I think unless we get to the point where there is excessive concentration in individual markets we should not interfere with that process unless we really do have concrete proof that either there is a dislocation in the capital markets, a serious dislocation in our ability to seek new reserves or some other serious problem which is factually shown.

I don't believe we have an indication of that.

Mr. DOWNEY. Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you.

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Would you discuss at this time if you can the Department's current plans to review the Justice Department's merger guidelines.

Mr. **McGrath**. Yes, we are hard at work on that. When I first became head of the division in December, I determined to revise the merger guidelines this year. My reason for that was that we will now have 2 years of experience and comment on them and we should take advantage of that and see what changes should be made. Also, the 1982 guidelines came out 14 years after the 1968 guidelines and the 1968 guidelines just became badly out of date and it was very troublesome to the business community as you just didn't have much of an idea of what you could and couldn't do.

My goal has been to come out with revisions on June 14, which happens to be the second birthday of the merger guidelines. I picked that arbitrary date because of my conclusion because if you don't pick arbitrary dates to do things in government, you don't do anything.

We have gotten comments from a large number of top antitrust scholars and practitioners and from bar groups and the lawyers and economists in the Antitrust Division and from some others in government. We are in the process of sorting those out and I would hope that, and I do expect that, we will meet the schedule.

I think the main things we will be doing will first be to define how imports and foreign competition are taken into account in making merger enforcement decisions. The current guidelines don't give much, if any, help on that subject. Second, we will be making more clear how we take into account economic efficiencies.

Third, we will be spelling out a little better how we take into account expected future events. I mentioned, for instance, the financial problems of Republic which translates into an expected future market event. That is an example.

Also, as a broad matter we want to do a better job of communicating how we apply some of the economic tests that are set forth in the guidelines, in particular to make it clear that the guidelines are not an artificial numerical exercise. They are a broad, factual exercise designed principally to answer the question of what probable supply responses are likely to take place in the case of different market changes.

Chairman **Gibbons**. We look forward to hearing and learning more of those guidelines and I commend you personally for setting a deadline because I know that is really the only way you can get things accomplished around here.

I also commend you for taking into consideration the fact that we do now live in a world economy. Our tariffs are substantially reduced and in most industries nontariff barriers have been substantially reduced; and obviously our domestic industry is competing more and more in the world market, particularly with our floating currencies and all the other things.

Hopefully when you do that you may lessen some of the pressure we get from some for protection around here. I see a role for us to work together in all of this.

My next question is does the administration's current antitrust policy create an advantage for foreign acquisition of U.S. steel companies over mergers and acquisitions among U.S. steel companies?

Mr. **McGrath**. I don't think it does create an advantage. As I indicated before, we have I think a sort of a healthy mix of what is do-able and not do-able in our economy today. A merger I think was a good answer for LTV and Republic. On a preliminary basis it looks like the kind of joint venture involved in the Nippon-National transaction is probably a healthy move competitively.

And thus I think what we have is a situation in which a variety of kinds of transactions are possible, including others we have not discussed, which might include supply or tolling contracts among firms or sales of plants among firms and so on. I think, in short, we have a diverse situation. The one thing, however, that does distort the situation and would distort it further if this legislation was passed, is import restraints as a practical matter, if we had legislation, say, that barred some foreign competitors from competing here, when you look at the situation under the merger laws, obviously if those firms are not competing here, it is hard to say it would restrain trade if they acquire a company here.

So one of the great concerns I have is that the kind of legislation here proposed would distort merger analysis, and that shouldn't happen. I agree with you completely that we should—hopefully both branches of government can work toward world market concepts and that certainly is what we are doing.

Chairman **Gibbons**. Mr. Frenzel?

Mr. **Frenzel**. No questions, Mr. Chairman.

Chairman **Gibbons**. Mr. McGrath, that completes my questioning. I want to thank you for coming here and for helping us with this problem.

With the caveat that I know very little about antitrust laws, I want to say that you make a very favorable impression on me and I am hard to please. So keep up the good work.

Mr. **McGrath**. Thank you very much for your courtesies, Mr. Chairman.

Chairman **Gibbons**. Thank you, sir.

The subcommittee will recess to reconvene at 2 o'clock in this room, at which time we will hear the testimony of our distinguished Secretary of Commerce, Mr. Malcom Baldrige. The meeting is now recessed.

[Whereupon, at 11:59 a.m., the subcommittee was recessed, to reconvene at 2 p.m.]

AFTERNOON SESSION

Chairman **Gibbons**. Good afternoon, ladies and gentlemen. This is a continuation of this morning's hearings on the situation in the steel industry. We have with us this afternoon our Secretary of Commerce, Malcolm Baldrige.

Mr. Secretary, we welcome you, you may proceed as you wish.

STATEMENT OF HON. MALCOLM BALDRIGE, SECRETARY OF COMMERCE

Secretary **Baldrige**. Thank you, Mr. Chairman, thank you very much.

I have a prepared statement that seems pretty long to me. I could just give a one-sentence summary and then submit the statement for the record.

Chairman GIBBONS. We will put your statement in the record at any point you wish it. Just go right ahead.

Secretary BALDRIGE. Well, I think that it is clear to me, sir, that this bill has three major flaws. First, it is a job loser. There will be fewer American workers with jobs 5 years from now than there would have been if we don't put this through.

Second, it is a competitiveness loser, if I can put it that way. Our steel industry will be clearly less competitive compared to its international rivals 5 to 10 years from now if this bill is put through.

Third, it is an inflation raiser.

Every consumer in the country and all the manufacturers to whom steel is sold will be paying higher prices as a result of this bill if it were to go through.

Chairman GIBBONS. Other than that it is a good bill.

Secretary BALDRIGE. Other than that it is a fine bill, yes. That would be my point, Mr. Chairman. But I will submit the prepared statement later.

[The prepared statement follows:]

STATEMENT OF HON. MALCOLM BALDRIGE, SECRETARY OF COMMERCE

Mr. Chairman and members of the Subcommittee, I appreciate your invitation to offer my views both on the problems of the steel industry and on H.R. 5081, "The Fair Trade in Steel Act of 1984." In my remarks, I will cover three basic points—all of which are important in understanding the industry's situation and the Administration's opposition to quota legislation. First, I will review what I believe are the long term competitive challenges that face the industry. Second, I will describe the negative impact that H.R. 5081 would have on our economic recovery and the steel industry's efforts to become more competitive. Lastly, I will report on recent progress in steel industry recovery and our efforts to ensure that unfairly traded imports do not undermine that recovery.

Steel is probably our most basic industry. Ultimately, its relative strength or weakness can influence the health of such critical sectors of the economy as the construction, transportation, energy development and industrial and agricultural machinery industries, to name only a few.

The future health of the steel industry will depend on how well it adapts to problems caused by a declining long term steel demand and expanding global steelmaking capacity. Beyond cyclical ups and downs, the long term demand for steel has fallen as a result of fundamental economic and technological changes. Product substitution, improvement in the versatility and durability of steel products and the general shift toward a more service-based economy have all contributed to this decline. In 1954, our economy consumed 111 tons of steel per $1 million of real GNP. By 1974, this figure had slipped to 92 tons, and last year it stood at 56 tons.

While demand for steel has been on the decline, global steelmaking capacity has grown. In recent years, our industrialized trading partners have made halting progress in shedding excess uneconomic capacity. But this has been more than offset by the steady expansion of capacity in many developing and non-market economy countries. Much of this new capacity is designed for export. Still more has been redirected toward foreign markets because of sluggish economic conditions and the need to earn foreign exchange.

The contraction of demand and expansion of capacity have had predictable results. World competition in steel is more intense than ever before. To address the problem, many of our trading partners have attempted to buttress their steel industries through expensive subsidy programs and protectionist measures. This will only postpone and make worse the inevitable day of reckoning.

The most effective response available to U.S. steel producers is through modernization and rationalization. The government can help ensure that the industry doesn't face unnecessary or unfair impediments to achieving this goal. But we must also be careful to avoid self-defeating policies that would give only illusory and "quick fix" assistance to the steel industry at the expense of our broader economic interests.

Enactment of H.R. 5081 would be just such a self-defeating measure. For one thing, it would have a debilitating effect on economic recovery in the United States. At a time when domestic demand for steel is improving, quotas would abruptly restrict the supply of foreign-produced steel. This would artificially squeeze supply and demand, and lead to an exaggerated increase in the price of domestic steel well beyond any that will result from improving demand alone.

Global steel quotas would also limit consumer choice. This has significance far greater than merely depriving consumers of varied sources of supply. Many steel-consuming firms have specific supply requirements that are being met solely or primarily by foreign producers. Now, the domestic steel industry simply isn't able to meet our economy's total steel requirements at a competitive price, or in a consistent and reliable supply.

Global steel quotas would force up costs of production for all industries that consume steel. The metal-working industries of our economy employ 20 times more people and account for almost 10 times more of the GNP than the steel industry. They would be hit with a one-two punch of inflated raw material prices and increased import competition as our trading partners moved their export mix into products fabricated from steel. Because many of these industries are already import-sensitive, enacting steel quotas would generate strong pressures for protecting a vast array of downstream industries.

The multiplier effect of steel quotas is enormous. Depending upon what monetary action is taken, quotas will result is either an increase in the price level in general or a decline in demand for other goods and services which would slow U.S. economic growth. The net result would be a recurrence of problems we have struggled to put behind us—inflation, recession and a less competitive industrial base.

The list of macro-economic arguments against global steel quotas is virtually endless. But what troubles me most is that they would harm the very industry they are intended to help. Quotas would distort both domestic demand and foreign supply to the steel industry's disadvantage. Consumers would move more rapidly to substitute materials, accelerating the long term decline in steel consumption. At the same time, foreign steel suppliers would shift their exports into higher-valued steel products. These product lines are the ones which many analysts believe the domestic integrated producers must emphasize to improve their long term market position.

Worst of all, quotas would give the industry a false sense of security against efficient competitors abroad. As such, they would discourage critical adjustments to structural changes in the international market. Broadly restricting consumer access to foreign supply would artifically maintain certain U.S. steelmaking facilities that are obsolete by any reasonable measurement of international competitiveness.

Real progress toward modernization and increased productivity would be delayed for one simple reason. Quotas mean less competition—and in our market, competition is what keeps industries and workers efficient. If blanket protection is provided our steelmakers for a minimum of five years, what can be we expect when the quotas are due to expire? Domestic producers will be unprepared to meet the competition or to catch up with changes that have occurred in the marketplace. The truth of the matter is "temporary" quotas could easily evolve into permanent protection for a chronically uncompetitive Ameican steel industry.

Lastly, global steel quotas would severely damage the international trade and economic interests of the United States. There could be no more blatant a contradiction of our government's repeated pledges to resist and roll back protectionist measures.

Legislated quotas would violate our GATT obligation to not impose import restrictions without an impartial investigation and finding of injury. They would also cause a staggering compensation bill—or foreign retaliation—to be inflicted upon our export industries.

In retaliation against our decision last year to grant import relief for specialty steel, the European Communities (EC) placed tariffs and quotas on U.S. exports of authletic equipment, security alarms and chemical products. I can guarantee that the international response to quotas on all steel imports were valued at $6.4 billion—and that was in a year when domestic and imported steel prices were very low. The consequent "price tag" for imposing quotas on all steel products could be devastating for our export industries.

This Administration is committed to the objective of a revitalized steel industry—one capable of competing head-on with foreign producers on the basis of free and fair trade. With this in mind, we have instituted policies that encourage rather than get in the way of restructuring.

Above all else, we have laid the groundwork for sustained, non-inflationary economic growth. Generally, the steel industry is among the last to participate in economic recoveries. But in the latter part of 1983, flat-rolled producers began to benefit from increased demand in the automotive and consumer appliance sectors. More recently, demand in the capital goods sector has also increased.

The results are unmistakable. Capability utilization was 79 percent in March, and averaged 81 percent in the first three weeks of April. This compares with an average of 55 percent in 1983 and the low of 34 percent recorded in nDecember 1982. Raw steel production in March reached 9.1 million tons, the highest monthly level since September 1981. Data Resources, Inc. (DRI) has forecast 1984 apparent steel consumption to be 93 million tons, up 12 percent from last year and 22 percent from 1982. DRI also forecasts consumption to average 103 million tons per year for the remainder of the decade.

Of course, the recovery has also had an effect on imports. Steel imports in the first quarter of this year were 91 percent above the level recorded in the first quarter of 1983. But to evaluate the true impact of this increase on our market, we must look behind the numbers. Over one-third of the first quarter 1983 to first quarter 1984 increase was in sheet products. This reflects the strength of demand in our consumer goods markets. Domestic producers themselves are experiencing delivery lead times of 6 to 10 weeks for these product lines.

While imports from Japan and the EC were up in the first quarter, the increases largely reflect year-end 1983 export increases that are only now being reported in our import statistics. This surge is apparently flattening out since imports from both Japan and the EC in March were down from January and February.

Increased imports from the EC stem from the efforts of EC producers to fill under-used quotas under the U.S.-EC steel trade arrangement. This arrangement is operating well, and first quarter imports from the EC remain 10 percent below comparable 1982 levels.

The Japanese, while under no such arrangement, have closely followed the direction of the market—and are careful to avoid running afoul of our unfair trade laws. Last year, Japanese imports fell 18 percent from 1982 levels in response to depressed market conditions. The first quarter upswing in Japanese imports reflects the tendency of their producers to bunch exports at the end of quarterly and annual periods and to follow changes in demand.

As for the remainder of the increase, our unfair trade laws are working to correct the problem where dumping or subsidization is involved. Thirty-one antidumping and countervailing duty investigations are now pending against several developing countries and other non-traditional suppliers. Most recently, we issued final countervailing duty determinations on various sheet and plate products from Brazil and Argentina. In the case of Brazil, we found average subsidy rates of 37 percent. These cases and others that may be filed will eliminate the unfair advantages held by certain foreign producers. But they will not—and should not—eliminate the competitive advantages resulting from lower costs and greater efficiencies.

Our overriding policy toward the steel industry must continue to be one which encourages adjustment to the realities of international competition in steel. This should be fully reflected in our trade policy, as well as in our policy toward mergers and industry rationalization. Far too many steps toward industry restructuring have been taken—and far too much is at stake—for us to throw in the towel and embrace global quotas. Quotas are a false solution to a problem that is well on its way to being solved. In the interests of both the steel industry and the economy, our efforts are better spent in ensuring that the industry can complete the process of adjustment it has already begun.

The Office of Management and Budget has informed me that enactment of H.R. 5081 would not be in accord with the program of the President.

Chairman GIBBONS. All right, sir.

Well, Mr. Secretary, you have never been known to be one who pulled punches when you threw them. I got to say you threw one right there.

We have had some other long discourses this morning from Ambassador Brock and he talked about the problems with the bill. We have had discussion by the Assistant Attorney General, Mr. McGrath, about antitrust matters that involve the steel industry, and as I hear you, you say it is a job loser, a competitiveness loser and the United States would be——

Secretary **Baldrige**. Inflation raiser, too.

Chairman **Gibbons**. And an inflation raiser.

Do you have any questions of the Secretary, Mr. Frenzel?

Mr. **Frenzel**. Mr. Chairman, I do have some questions for the Secretary.

I am a little embarrassed because I wasn't in here to hear the statement. I have it in front of me. One of the questions that perplexes me about this whole question, Mr. Secretary, is the amount of investment that would be available in the steel industry and what it might be able to accomplish. As I understand the bill, at least as it was described by steel company executives, it would provide that earnings and cash flow developed while the quotas were in operation over a 5-year period, would be used exclusively or almost exclusively to improve the industry or for investment, upgrading, modernization, or rationalization, whatever, in the industry.

It was suggested by those same witnesses that the total amount that might be developed over that period was $6 billion, and so I asked those witnesses if that was going to be enough to make them whole and they suggested, no, but it would certainly make them feel a lot better than they are now.

Given the adverse results which you have suggested, and trying to separate out what would have been invested in the steel industry anyway absent the quota, is that extra investment justifiable given the negative impact; and second, is it enough to make the steel industry more competitive?

Secretary **Baldrige**. That is not a question that lends itself to a real scientific and short answer, Mr. Congressman.

I believe my memory serves me right when I say that the steel industry had planned about $7 billion worth of investments between November 1980 to November 1983. With new major investments, the total investment would have been even higher. Because of the recession they have cut that just about in half. I don't know what the magic figure would be. I am not sure anybody knows.

The steel industry did invest quite a bit in the 1960's and 1970's. There were two problems with it though. One is they invested on kind of a piecemeal basis without long-range planning. That is, they would fix up parts of mills here and there so that we end up with a good many plants in which half the plant is competitive and the other isn't.

Second, they resisted taking any risks on new techniques like basic oxygen furnaces and continuous casting. The Japanese and other countries did not resist taking those risks and, as a result, we have probably 25 percent of our steel run through continuous casters whereas the Japanese have 85 percent. When we still are using some open hearth furnaces, the Japanese used their last open hearth furnace probably years ago.

So it is not just the amount of investment, it is the quality the willingness to use new techniques and take some risk with them that gets one industry ahead of others.

The steel industry in the United States has not been known for progressiveness in that area. Other countries have.

So I think my answer would be that we have to make more innovative kinds of investment in that industry, not the catchup kinds of investment. If you play catchup ball you almost never get there. By the time you have gotten there the other team is ahead again.

We need to play that double-jumper, leap-frog game where somehow the industry—we are looking into having this done in some connection with our national laboratories—gets into enough basic and fundamental manufacturing techniques that are new, brand new. That is what our industry needs to get ahead of the rest of the world, not just play catchup.

Mr. **Frenzel.** Thank you very much. We had this morning testimony from Assistant Attorney General McGrath on the subject of among other things, at least we inquired of him on the subject of antitrust. I asked him whether he thought under current antitrust laws steel companies could rationalize by acquisition, merger, et cetera; and he informed me that he thought they could.

Is that your opinion, too?

Secretary **Baldrige.** Yes, sir, it is now. I think the fact that the Justice Department did reach an agreement with Republic and LTV indicated a willingness for Justice to allow those kinds of procompetitive mergers. Mr. McGrath also announced that he and a high level working group consisting of several of our Cabinet departments—including Commerce—are going over the merger guidelines with an eye to upgrading them and allowing for mergers that could actually end up in more competition rather than less, and which benefit the consumer. We want to get away from the practice of just looking at market share as a static figure and if it hits a certain number, why, they throw it out. So I am quite encouraged by those. I see no practical reason why a revision of the merger guidelines could not accomplish what we both want.

Mr. **Frenzel.** Was the most recent LTV-Republic sort of watershed decision, which gave you renewed hope?

Secretary **Baldrige.** Yes, really, because I think that was the action that showed the will to do it. There had been talk before that but I think this clearly demonstrated that action would follow the talk.

Mr. **Frenzel.** Historically when steel began to complain about its lot in life with respect to imports, Chairman Gibbons and I suggested that it ought to follow the trade laws of the United States and if it was being unfairly put upon it should exercise its rights and seek such remedies as it could under the law.

Their first efforts were begun before the turn of the decade and instead of following up the cases that it originated, the industry negotiated with Mr. Solomon predominantly and others, with the result that the cases were abandoned and we went to a trigger price system.

After you came on the scene a sort of a similar circumstance followed in which negotiations followed filings of cases which were then set aside and the European negotiated quotas became a part of our life.

Ambassador Brock said this morning that he thought the trade remedies, in the opinion of our chairman notwithstanding, were in pretty good shape and might do the job for the industry if they would let some of them go through.

Can you comment on that opinion and particularly with your experience as having been involved in a withdrawal one time as to whether we should try the trade laws sometimes to see if they work?

Secretary BALDRIGE. I think that is what we are doing now. The steel industry is doing that now. We are prosecuting them as the U.S. Government. They are trying to use the trade laws.

Just talking about the steel industry now, if you broke down imports, you will find it runs about this way: About one-third of the imports are from the EC, about one-third from Japan and Canada, and about one-third from the rest of the world.

What happened in the last year was "rest of the world," mostly developing nations with new steel mills that had been subsidized in some form or another, began exporting to the United States in greatly increased quantities. The Mexicos and Brazils would be going up by the order of 100 percent a year, 300 percent. That caused the import penetration to rise.

Now, if that had been fairly traded steel that is one thing. But this was subsidized steel because the steel companies did bring cases and we have found many large subsidies from those developing countries.

When I first came here in 1981 we were running about 40 cases overall a year on countervailing duty or dumping. This year it will be about 140. It is up about 3 times. But in prosecuting these cases we have not missed a statutory deadline. We have not asked for an extension because of complicating circumstances since last July.

That means on a countervailing duty case if there is a subsidy, a steel company can get relief in 85 days—that is the statutory limit. That is less than 3 months. On dumping it is 160 days because it is more complicated.

As a result, it looks to me like the steel industry is pursuing a three-pronged pattern here, they are trying to get a 15-percent worldwide quota—which as I said earlier was a job loser, competitivity loser and inflation raiser—Bethlehem at least is trying a 201 injury case; and at the same time everybody is trying the trade cases. The trade cases are going to do some real good.

We find subsidies in the case of Brazil of 50 percent, Mexico 30 to 50 percent—although I don't have the exact numbers now but they are large; same with the Argentineans, Spaniards, South Africans. They are finding that this in fact does work. We are seeing that some of those countries realize we are adamant about enforcing our trade laws fairly. And we are seeing some of them voluntarily restrain exports. They don't want to be in a position of causing injury to the U.S. market because they know they will be found to have been subsidizing.

Mr. FRENZEL. Therefore if you established a quota and those countries got any they would have no incentive to change their subsidy.

Secretary BALDRIGE. That is right.

Mr. FRENZEL. In fact they would have an incentive to do whatever subsidy was necessary to maintain their quota.

Secretary BALDRIGE. That is right, Mr. Congressman, and also the point doesn't get stressed enough but in the European arrangement that was done according to our trade laws where most of the European countries with a couple of exceptions had been heavily subsidizing their steel, and shifting their unemployment to the

United States, that once we finally made those determinations then they were willing to—and American industry thought it was in their best interests, too—to negotiate the agreement we have.

But in that arrangement we have, it clearly states that the European Communities must restructure their industry so that they don't have to subsidize by the end of 1985. That is part of the agreement. So around the world we are trying to make sure that they are trying to get rid of subsidies, not give them a safe harbor.

Mr. **Frenzel**. I understand once the quota is in place and some protection is being enjoyed it is becoming very difficult for the EC to carry out their rationalization plan because everybody is comfy now and nobody wants to be rationalized out of the production picture.

Secretary **Baldrige**. That is right.

Mr. **Frenzel**. Your testimony on page 7 indicates—not page 7, it is on page 8, indicates that production will be up 12 percent this year, which is up 22 percent from the year before. What happens when there is that kind of increased market in a quota instance? Doesn't that mean sharply increasing prices and supply difficulties for American consumers of raw steel products?

Secretary **Baldrige**. If you mean when there isn't an increase in imported steel or when there isn't an increase in——

Mr. **Frenzel**. When there is a quota on imported steel.

Secretary **Baldrige**. Yes.

Mr. **Frenzel**. And you have a situation of recovery which we have now.

Secretary **Baldrige**. It raises prices, yes. The price of steel in this country if it isn't the highest in the world is close to it.

The rest of the world's steel market on average has much lower prices than the U.S. market right today.

Mr. **Frenzel**. We talked about a study as to what was likely to happen as a result of the imposition of a quota. The committee has commissioned the CBO to do such a study and we have some preliminary reports although the numbers are not in yet. Is the administration doing such a study, too, or will it rely to some extent on the CBO?

Secretary **Baldrige**. Probably rely on the CBO. We are not doing any study that I am aware of except what those of us who have been in industry and in some cases in economics have seen happen time and again so that you don't have to reinvent the wheel each time.

I worked pouring steel in a steel foundry for several years and for several years after that as a foreman and manufacturing manager and then president of the company. I have seen firsthand plants where I have worked that were still using a Bessemer converter, if you can believe that, in 1950. I thought the last one of those had been in a museum years before.

But you take antiquated facilities like that and try and preserve them through some quota bill and you are not helping the international competitiveness of the United States.

On the other hand, if you can take plants like I have seen firsthand in the same kind of business and make it the most modern kind of plant in the world, you don't have any trouble keeping the unemployment down, profits up, and so forth.

That is done by having competition breathe down your neck, not by having a safeguard put around your shores that is going to invite inevitably retaliation from others.

Mr. **Frenzel**. Thank you, Mr. Secretary.

When we had hearings on the domestic content for automobiles bill we did have the prospective or potential job losses quantified and inflation increases quantified. Do you estimate under this proposal that the loss of jobs would exceed whatever jobs might be either created or retained in the steel industry.

Secretary **Baldrige**. I definitely think so. Mr. Congressman, further, the long-range consequences of this are just as, if not more so, severe, because we will lose our competitive ability compared to our international rivals. You just don't have to be as progressive and as disciplined if you are working under a quota system as if you were operating in a free market. That is not to say that all competition, all competitive forces end up in nice, neat results but in general it is a tough international competitive world we are living in and it is going to be getting tougher, not less so, and our companies have to be able to compete on their own.

We cannot prop them up continually. We have seen that in Europe. They have put $6 billion in subsidizing their steel industry in the last few years and it hasn't done a darn bit of good. As a matter of fact, it has done them harm because they have not done the restructuring they should. Nobody likes to restructure but the buggy industry had to do that, you can remember the cries when the Erie Canal was put in about what would happen to the railroads and so forth. It is just part of industrial progress, like it or not. It is inevitable.

Mr. **Frenzel**. I must agree. Mr. Secretary, a number of years ago this committee principally led by the efforts of Congressman Jones, worked with another administration to reorganize the trade function by Executive order, and your Department was given some of the work that you talked very proudly about a moment ago which you are now doing under the time lines prescribed by the law which in fact has been tightened up considerably since.

Without taking away anything from the previous administration—because they worked well, too, far better than the job as it was handled in the Treasury, I do want to congratulate you and your people.

Secretary **Baldrige**. Thank you.

Mr. **Frenzel**. For the job you are doing. This committee as you know was nervous about the declaration of special circumstance to extend some of these remedy time lines, and we are particularly pleased that you have been able to settle them without doing that and I hope that you will convey our congratulations to the people who are working I know very hard in that department.

Secretary **Baldrige**. I will, and they will appreciate your thoughts very much. Thank you, Mr. Congressman.

Mr. **Frenzel**. Chairman Downey, I yield the balance of my time.

Mr. **Downey** [presiding]. Thank you, Mr. Frenzel.

Mr. Secretary, I apologize for coming in late, but I have been reading your statement. I have a question on page 4. You say many of the steel consuming firms have specific supply requirements that are being met solely or primarily by foreign producers.

Secretary **Baldrige**. Yes.

Mr. **Downey**. Can you give me some examples of them that are not based on just price or—well, just based on not price. I would like to know whether or not there are specific types of steel or quantities being supplied abroad that cannot be supplied domestically.

Secretary **Baldrige**. Those would be high grade specialty steels that other countries specialize in more than we do; some pipe and tube products that mostly were the result of lack of capacity in the United States during the oil drilling boom—if I can call it that—a little while ago. There were long-term contracts made abroad that I believe still have a couple months to run that American companies made themselves, American steel companies made while they were in the process of building new plants. That of course was—then the drilling, of course, activity went way down and everybody is caught with too much inventory and as a result there is chaos in that pipe and tube market now.

But I would say pipe and tube imports and high grade specialty steels are those not readily available in the United States at the time.

Mr. **Downey**. What sort of percentage? You say in the paragraph before, "Steel quotas would limit consumer choice. This has significance far greater than merely depriving consumers of varied sources of supply."

Can you give me some idea of percentages? What amount of steel are we talking about that is the specialty type that cannot now be supplied to the domestic producers?

Secretary **Baldrige**. I don't have an overall figure, Mr. Congressman.

Mr. **Downey**. Could you supply it for the record, Mr. Secretary?

Secretary **Baldrige**. I will supply our best estimate. I will be glad to.

[The information follows:]

There are a number of highly specialized products with unique applications that are not made in the United States—or at least not made in either the required quality or in commercial quantities. While precise data is unavailable, imports of these products probably amount to no more than 1 or 2 percent of total steel imports. Examples of these kinds of products would include those which were exempted from the Section 201 relief measures for specialty steel, such as band saw steel, chipper knife steel, razor blade steel, and cladding grade 434 stainless steel sheet.

In addition, there are certain proprietary grades of steel products that are manufactured abroad and used by various U.S. firms for specific applications. Other products not readily or immediately available in the United States would include very large diameter pipe and tube products as well as certain extra-wide flat-rolled steels. While the overall tonnages associated with these products may not be large relative to total steel imports, quotas could lead to serious supply difficulties for a wide variety of individual steel-using firms in an economy as diversified as that of the United States.

Secretary **Baldrige**. We have had actually had inquiries at the Commerce Department within the last 3 months by companies who are looking for steel that they say cannot be supplied, particularly in the flat rolled market because the automobile business has picked up so much that other people using flat rolled want other sources.

Mr. **Downey**. Mr. Secretary, please, this question is not intended to be cute and I don't want it to sound like this, but in preparation of your statement, did the same person that prepared Ambassador Brock's statement prepare your statement?

Secretary **Baldrige**. No; I can say no. I am not sure who did.

Mr. **Downey**. OK.

Secretary **Baldrige**. But if you notice I didn't use the statement. I just submitted it for the record. I back up what is in it.

Mr. **Downey**. There are expressions there that are remarkably similar and I was curious to know. Your answer suffices. Let me ask with respect to whether or not there has been any relief provided to the members of the domestic steel industry by the trade adjustment assistance program. Can you tell me if we have been able to help them in any way with that act?

Secretary **Baldrige**. I don't have those figures with me.

On the retraining program—I mean, the steel companies have made use of that. As to the exact number of dollars or how many people I don't have that.

Mr. **Downey**. Could that be supplied for the record, too?

Secretary **Baldrige**. Yes.

[The information follows:]

Department of Labor statistics indicate that approximately $52 million in trade readjustment allowances (TRA) have been disbursed to workers in the basic steel industry, the steel wire-drawing and wire products industry and the steel pipe and tube industry since the Reagan Administration came to office. In 1983, nearly 130,000 workers in these industries received TRA payments, including over 18,000 which received allowances for the first time. Over $20 million in allowances were paid in 1983 alone to affected workers in these industries.

Mr. **Downey**. Let me ask, with respect to the President's Steel Advisory Committee, which he established last fall, comprised of members of the Federal Government, the business community and labor community, can you tell me what the purpose of that committee's formation was and what it has been doing and also if you can tell me how it was different than President Carter's Tripartite Committee, if there were any differences?

Secretary **Baldrige**. It is much the same as the Tripartite Committee. It is an effort to get the Government, the private sector, and the unions together to see if we can agree on the extent of the problem and any actions that should rightfully be taken.

They have had several meetings, individual committee reports were made, they were divided into committees, they will come in next month so I don't want to comment on what will be in them but they will be coming in. They are divided into trade, for example, what should we do with trade actions?

Capital investment is another. And how the Government can effect those with their actions.

The state of the industry, how bad are things? What will happen in the future? We will begin to get those reports in next month.

Mr. **Downey**. I think I heard you answering it while I came in the room and if you did then please just tell me you have answered and I will look for it in the record, but Mr. Roderick and others who were here to testify last week about the problem of their industry made what I consider to be a fairly compelling case on the question of the current laws in terms of providing remedies for their problems.

Secretary **Baldrige**. Providing what, sir?

Mr. **Downey**. Providing remedies under the existing trade laws. They made the point that frankly the existing laws were not enough to provide a remedy and indeed the quota was necessary. What I would like you to do for a minute if you would is answer that charge by them and then answer my question whether or not it would be necessary to change the law in any way to provide a more effective remedy?

Secretary **Baldrige**. Well, first I would disagree with Mr. Roderick. If you want overnight action I suppose that that would be one thing but in this complex world we cannot get that. What we have are trade laws on our books that require in the case of countervailing duties 85 days. That is less than 3 months for the Commerce Department, 85 days from the time the case is actually filed to when we give our preliminary determination on a countervailing duty or subsidy case.

Now, if we find subsidies as we have in many of those cases, a great many of them, immediately we find that within the 85-day period. We put—I guess the technical word escapes me—but the importers of that steel in that class have to post bonds equal to the subsidies that we have found so that is a very effective dampening action right there. Then after that where injury tests are necessary the ITC has to find injury and we make the final determination and then it is put on as a flat countervailing duty.

But the actual effect begins the day after the 85th day on the import bonds.

I have heard steel executives and actually some Senators, Senator Specter, I think, from Pennsylvania brought this up; well, that is not fast enough. Maybe we ought to have a judge do it or turn it over to the Federal legal process.

I think, I just think that that would be a great step backward because I have not seen the Federal Court system usually work that fast. It could be tied up for years in the Federal Court system. I don't think that is the answer.

I don't think the answer is to shorten that time that much either below the 85 days because in that slightly less than 3-month time period we have to prove subsidies strongly enough, make a case strongly enough that we are prepared to be sued by both sides of the case when we come out with a finding. We can get sued by either side.

So it has to be done with some care and I don't think that a 3-month subsidy finding is too long.

As far as effectiveness of it, we have found subsidies as high as 50, 70, 100 percent in countries like Mexico, Brazil—you know they have just been coming in in the last 3 months but that is because the steel companies didn't file sooner. It is not because we have been late. Every one of them we hit the statutory deadline on it. So I am mystified a little at the stress they put on that. I can understand the fact that they are having a tough time and so forth but I don't think that is an accurate statement on their part.

Mr. **Downey**. Let me just think through with you a concern that I have had because unlike you and Ambassador Brock, I think that the steel industry problem merits our attention in a different way than this administration is prepared to deal with. I would first say that you eloquently and accurately point out in the statement that frankly as our percentage of GNP grows the amount of steel that is used as opposed to the amount of steel once used has been drastically reduced almost by a factor of 100 percent.

Secretary **Baldrige**. Yes, almost by half.

Mr. **Downey**. That has nothing to do with domestic imports, that has something to do with the fact that people use plastic and copper as opposed to steel and I think I understand that.

What concerns me is that what those of us who have unemployed steelworkers—I am fortunately privileged not to have to face that but those of my colleagues who do will have to say to steelworkers who face unemployment or executives who as well face unemployment, is that you have in place market—we have remedies 201 and others that you can use but that frankly we think the marketplace is the best way to correct the problems.

Is that basically a fair characterization of the administration's position?

Secretary **Baldrige**. Yes; I think that is very fair. The competition—our ability to compete is our biggest security, not our ability to put safety nets around the outside of the United States because then you will never get more competitive.

Mr. **Downey**. I agree with you with the caveat of course that it would be nice if the other countries of the world played with the same competitive rules.

Secretary **Baldrige**. Yes.

Mr. **Downey**. We could have lovely discussions of comparative economic advantage and who should produce what and we can all move to, "Adam Smith's Valhalla."

What concerns me is that there is a political dimension to this as well. We have made the political decision to protect the textile industry in this country because they can arouse more political clout in the Congress perhaps than the steel industry can. We protect sugar growers with a quota that does not stand the test of your free market rhetoric.

We found in 201 matters that motorcycles needed to be helped in a way through the trade laws—I am glad we have done that. But the bottom line is we have a lot of people who are out of work for one reason or another and it seems to me there is an additional price we pay for letting the marketplace solve our problems. That is that there is an enormous social and individual dislocation that cannot be ignored.

What concerns me about the administration's position is that while you have a very good and difficult argument to overcome in terms of the marketplace especially with steel you have a huge dimension that it seems to me deals fast and loose with people who are potentially out of work.

For example, on the trade adjustment we are saying while we are competitive and should be competitive we don't want you to suffer inordinately, but this administration has essentially done away with trade adjustment assistance. What is left is a vestige of that program which is a minor retraining program. This administration for the most part has done serious damage, in my view, to a whole range of training programs that would give individuals, the individual steelworker out there—he was out there like you were when he was working beside him—he or she is trying to provide for his or her family and it seems to me while you can make a fine competitive market we are just leaving the individual dimension of unemployment out in the cold.

It seems to me that we have broken the faith of at least what I would like to see our Government do when we do away with trade adjustment assistance or do away with training programs that we provide the workers who in my view are innocent victims of this new option.

Secretary **BALDRIGE**. You left me a lot of things to answer in there.

Mr. **DOWNEY**. I throw that out, you have always been a reasonable witness and I will let you answer the question and turn it over to Mr. Pease. It is not a question, it is more of a statement.

Secretary **BALDRIGE**. You know, at the beginning you mentioned that we have gone the other way with textiles, sugar and motorcycles.

Mr. **DOWNEY**. As examples.

Secretary **BALDRIGE**. As examples, yes. Those are examples that are frequently cited. Let me say, in the case of sugar, that is lumped under agricultural problems we have that are really different from these manufactured problems. We would be all afternoon talking about sugar. I would just as soon not talk about it if you don't mind.

Mr. **DOWNEY**. I would like to hear you talk about sugar because Congressman Gradison and I have an amendment in to do away with the sugar quota.

Mr. **FRENZEL**. Will the gentleman yield?

Mr. **DOWNEY**. No, I do not yield because I know the gentleman is going to point out the inconsistency of my argument. I will do it for him.

Mr. **FRENZEL**. I was going to suggest if you are successful in your sugar amendment then certainly you will withdraw your vote for the steel bill.

Secretary **BALDRIGE**. On textiles, that isn't a U.S. case. That is a world wide multifiber arrangement where all the developed countries in the world, not all but most of them that have textile imports, decided years ago long before this administration that there should be some kind of overall way to handle the obvious coming transfer of those jobs from in part at least from the developed to the developing countries because there is no other way that they saw that that could be handled.

Rightly or wrongly that happened long before this administration or the last administration.

Mr. **DOWNEY**. Yes.

Secretary **BALDRIGE**. Motorcycles, I don't think it was a question of political clout. It was a question of there being one motorcycle company left in the United States. And I don't know if it was for political reasons, but the administration did decide to support that case for 5 years.

I think on the trade adjustment assistance, I have always argued for it in the admininstration. I have also talked to some of the union leaders privately and in some of the steel towns to find out how effective they thought it was. And you know, regardless of the theory, that is really tough to put into action in a town where there isn't another job open to train him for. What kind of training do you give him? We even had—I think we still have, I am not sure—some moneys for relocating people that were not very enthusiastically received.

I mean, I am right with you on how tough that problem is and I wish there was a good answer for it, but retraining is something that we are trying under the Jobs Training Act and so forth, but you have to have jobs that the people laid off are able to be retrained for and so forth.

We are trying to set up on the Jobs Training Act local businessmen being at least 50 percent of the board of directors of it, so that they can direct the kind of program to make sure it is practical and also get involved in giving the jobs at the end of it. That is too soon now to know how that is working. But it is a very difficult problem and I have great sympathy for your viewpoint.

Mr. **Downey**. I thank you for your thoughtful response.

You can make all sorts of arguments about trade adjustment assistance, and Congressman Frenzel and I have debated this point for years on this committee, but it seems to me there is a price you have to pay for a competitive society that deals in a real political world of people who lost jobs.

You know, to just say to somebody, well, you know, you are losing your job because the Koreans are more efficient and we think that in the long run, money will be saved to buy Korean steel, which will enable us to reinvest that money and create jobs elsewhere—that is clearly an argument, to my understanding, that you have taken.

Secretary **Baldrige**. If I can make another point on that.

Mr. **Downey**. Go ahead.

Secretary **Baldrige**. You know, the steel executives, if I have a bone to pick with them, will lean on this import thing as if that was their whole problem. As you pointed out, it is true that, also, that, yes, imports are part of the problem. But also the way that automobiles have been downsized and lightened up and so forth and other areas, also, that steel consumption per unit of GNP has gone down by about half in the last 10, maybe 20 years, 10 or 20 years.

I happen to have the figures in front of me on just flat-rolled production, flat-rolled sheet. Between 1970 and 1980, the actual production went down. Where the displacement came was by an equivalent of 7 million tons of imports, but also 15 million tons of plastic and aluminum, the equivalent in steel of plastic and aluminum—more than twice the effect that imports had.

That means that in this process we are going through continually in an industrialized world, steel—this is one of our arguments with the Justice Department, for instance—steel is not just competing against imports or other steel companies; they are competing against other materials. Steel used to make most of the cans. Now it is aluminum or glass that is taking over a lot. Plastic is taking over quite a bit. That is a continual competition for the lowest cost for comparable quantities.

That is another reason why raising costs in the steel industry is going to hurt more than it is going to help, because this incursion by other materials still has a way to go at this point, obviously.

Mr. Downey. I might also add from a personal point of view, I was pleased to see you speak out on the Justice Department who, in my view, acted foolishly in denying that original merger. Because I think you are absolutely correct: They are competing with a host of entities, not only foreign sources, but other sources for building supplies and so on.

I yield to Mr. Pease for both questioning and the Chair.

Mr. Pease [presiding]. Thank you, Mr. Chairman. I appreciate that.

Mr. Secretary, I would like to ask you a couple questions. First, at the request of Mr. Hance, who is unable to be here today, the committee understands that on April 6, your Department initiated formal consultations with the EC pursuant to the pipe and tube arrangements.

Would you please tell us what meetings have been held so far? Which officials are representing the United States in these actions? And what results have been achieved?

Secretary **Baldrige.** May I have your permission to ask Deputy Assistant Secretary Alan Holmer, who has been participating in those and could give you more details than I can.

Mr. Pease. Surely.

Mr. Holmer. Mr. Pease, there have been three separate sessions that have been held thus far and more that will be held, we expect, in the near future. One was with Deputy Under Secretary Olin Wethington, who went to Brussels to have a meeting with representatives of the EC; that was followed up by a meeting 4 or 5 days later in Washington with Under Secretary Lionel Olmer, with Hugo Paeman on behalf of the EC; and then on, I believe, Friday, April 13, there were sessions held that I chaired with representatives from the EC who had come over to the United States for the normal quarterly consultations that we have.

We had a very frank and constructive exchange of views. There are a number of items we had a chance to educate them on with respect to what our concerns are, which are principally, one, we believe there is diversion that has occurred under the arrangement as a result of the dramatic increase that occurred with respect to pipe and tube exports to the United States from the EC. And also that there appears to be distortion within the pipe and tube sector and that is, in particular, we are concerned about the high level of imports of oil country tubular goods.

At their request, we said that it was fine from our perspective that they went back and had a chance to review the data, but we expect they will get back to us in a few days with their response to the request we made.

Mr. Pease. Thank you.

I heard last week from staff, I guess, that part of the increase in imports of tubular goods was the result of United States Steel importing tubular goods from Spain. Are you aware of that at all?

Mr. Holmer. Yes; our understanding that a significant portion of the imports that occurred in 1983 related to imports to a U.S. company from Italy, not from Spain.

Mr. Pease. All right.

Mr. **Holmer**. It is also our understanding that whatever levels of imports there may have been in 1983 will be very drastically reduced in 1984 from Italy to that U.S. company.

Mr. **Pease**. I think——

Secretary **Baldrige**. If I may, Mr. Pease, I would add to that. That was attempted by the U.S. company during this oil drilling boom that we had in 1981 to be able to satisfy their own customers while they were building a new pipe and tube plant. They were trying to cover their customers needs.

That contract was, I don't know, a 2- or 3-year contract. But it is running out now, so I don't think it will be a problem in the future.

Mr. **Pease**. I was going to speculate that the reason probably was that United States Steel is in the process of completing a new pipe and tube plant in Alabama.

Secretary **Baldrige**. Yes.

Mr. **Pease**. And that they were trying to meet their customers needs.

In relation to those consultations that are taking place now, what actions will the Department take in the event consultations fail to result in EC compliance with the basic arrangement?

Mr. **Holmer**. I think the response of the Department will depend on what response we receive from the EC and it would really be inappropriate for us to attempt to prejudge at this date what actions we might or might not take.

Mr. **Pease**. Thank you.

Secretary **Baldrige**. I think, Mr. Pease, everything we have seen to date shows us that the European Community does want to honor that overall contract. It can't just proceed without any glitches here or there.

Part of the pipe and tube problem is because the company that we and the EC both agreed to use as a predictor of what would happen to the business, so that people could get prepared to have the proper shipping level, their forecasts have varied so widely that it has been very difficult for anybody to pin it down.

Most of the American steel companies would agree to that. But they are interested in what happens from here on. We have noticed that Europeans do want to keep the agreement.

I think that some of them who feel they are not subsidizing are looking at the Bethlehem 201 case against the whole world for injury as perhaps endangering the EC-U.S. agreement and they are getting a little antsy about that. But so far they have shown every sign of keeping it.

Mr. **Pease**. Thank you.

Mr. Secretary, I understand that much of the surge in steel imports over the last year or so has been not from Japan, not from the EC, but from Third World Countries.

Secretary **Baldrige**. Yes.

Mr. **Pease**. I would like to focus on that aspect of the problem for a few minutes.

Recently, I think Brazil, South Africa, and Mexico, if I am not mistaken, have announced voluntary restraints on their exports of steel to the United States. Were those done in consultation with the Commerce Department? Are we urging that course upon them or did they come to that conclusion by themselves?

Secretary **Baldrige**. No, sir, they were not done in consultation with the Commerce Department. We don't want to set up either orderly market arrangements or negotiated voluntary restraints around the world. You might as well have a worldwide steel quota.

What we have tried to do is what the law tells us to do, which is to stop dumping and subsidized imports of steel by putting, in the case of subsidies, the proper countervailing duty on them.

When those countries saw—this has to be my own opinion--but when those countries saw that we in fact were going to enforce our trade laws all the way and once they understood that and they saw us put these large countervailing duties on, then they began to voluntarily reduce their shipments as not to cause injury so they wouldn't be put in a position of having those duties put on.

We have no consultations with them about the level, or anything else, except the fact that we are not going to back away from our enforcement of the fair trade laws.

Mr. **Pease**. I am very, very encouraged to hear you say that.

The steel companies in the United States have filed a number of countervailing duty and antidumping cases. I want to look ahead about a year.

Would you expect that most of those cases that have been filed thus far would be settled one way or another by this time next year?

Secretary **Baldrige**. Well, it is a brave guess but if I had to guess, I would say probably most of them, because a country like—well, I don't want to pick out a particular one, but let's say a typical South American country, that is, where we have found subsidies to the extent of 50 percent or something like that; if we follow our trade laws as we have and put the 50 percent countervailing duty on, that effectively X's them out of our market. They will sell zero in that product line. They don't want to face that.

So what is their other alternative? We are not going to—the administration is against a worldwide steel quota for the reasons we have given, so usually there is an injury test provided and if they get back down below the level of the injury test, you know, back to where they used to be, they figure that is their best chance.

I think that is what most of them will do.

Mr. **Pease**. Thank you.

Between the effect of countervailing duties as a result of these cases as they are decided, and the actions taken voluntarily by Third World countries in anticipation of these cases, what do you project, if you can, would be the level of imports from Third World countries, say, a year from now?

Secretary **Baldrige**. Traditionally they have had in total about a third of the imports. I think that figure is right.

Mr. **Holmer**. That is right.

Secretary **Baldrige**. Now they are up higher than that, probably up over 40 percent, and I would believe that they would get back down to their traditional level, I think that would happen, to about a third of the imports, which would take the total import level down.

Again, I don't want to guess on this, but it has reached a high of 26 percent and I think that that would come down substantially, somewhere below 20 percent, but I can't put an exact date on that because that is very difficult to do. But that would be my best guess.

Mr. **Pease**. Mr. Secretary, I have additional questions that I could ask but we have a vote on and we will have to leave in 7 or 8 minutes.

Mr. Schulze has not had a chance to ask questions yet, so I will yield to him so that we can hopefully terminate the hearing and not ask you to wait for us.

Mr. Schulze.

Mr. **Schulze**. Thank you. I thank the gentleman. I will be brief.

I would like to thank the Secretary for appearing before us.

Mr. Secretary, it seems to me that the steel industry historically has been put upon more by the Federal Government than any other industry in the country. I am sure you are aware of the things that Harry Truman and Eisenhower and Kennedy did, threatening and sending IRS agents to do income tax returns and all kinds of, in my opinion, just uncalled for and illegal, immoral pressure.

That kind of action has to have an effect on an industry, and I think it has, and it has conditioned them to the point where if they wanted to take a strike or wanted to keep wages in line, they couldn't do it. They knew the Government would come down with both feet. Who would not, after that kind of experience?

So I think we are partially to blame. We do everything we can here in Washington to avoid responsibility but I think we have a great deal of responsibility in this area.

I think this steel industry has tried. They are down almost 300,000 employees. They are trying to rationalize, and spend more money to make more efficient operations than they are taking in.

Yet, the steel industry along with other industries has the view that the Federal Government is in an adversarial position when it comes to dealing with foreign trade or unfair practices.

I would just wonder if you have any thoughts on how we can eliminate that view and how we can make the Federal Government more responsive to the needs?

I might also state the way I view your role. Though you are a part of the administration, I would hope you would also be an advocate for the business community within that administration, out there fighting for what businessmen believe in.

I have thought of things such as making mandatory, the ITC recommendations or having the recommendation referred to Congress rather than the President to implement.

So that we then could be more directly responsible, perhaps even more than this subcommittee. They get a shot at us every 2 years and so we can be directly responsible. Someobody should be a little more responsible in these cases.

I just wonder if you have any thoughts on the way to make the system more responsive?

Secretary **Baldrige**. I would have to disagree on one thing and that is that we, at least as long as I have been at the Commerce

Department, have been in an adversarial relationship. If you want to call——

Mr. SCHULZE. I might say I still hear in the business community——

Secretary BALDRIGE. You still hear that, yes.

Mr. SCHULZE. I do.

Secretary BALDRIGE. I understand. I hear it too.

Mr. SCHULZE. It is real or perceived, but there is that feeling out there.

Secretary BALDRIGE. I understand. I have spent 30 years in business myself, and I believe I know and understand those individuals who are in the steel business.

I said before you came in, I worked in that business myself pouring steel for more than a few years, and if you want to call every time you disagreed with your friends, that it puts you in an adversarial position, I guess I am, because I don't agree with everything they are trying to do.

They are trying to blame the whole problem they face of declining profits on a single source, and that is imports—and that is not right.

Mr. SCHULZE. Let me interject there that I think their feeling of frustration has increased over the years, that they have sort of felt that they were playing by the rules and going along and trying to do what was right. We do have a worldwide oversupply of steel.

Secretary BALDRIGE. We have had 200 million tons oversupply last year, slightly less than that now, but that is because business has picked up.

But, yes; the Government caused a good deal of those problems. They caused one of the major problems for the steel industry that you didn't touch on but I think is one of the major ones, and that is by the U.S. Government not combatting inflation soon enough, that meant that for the steel companies in the 1970's to get into long-range projects, like a new continuous casting machine or basic oxygen furnace—those are long-term projects, they are supposed to last 20 years or something like that—and inflation had sent the P and E ratios of those stocks down low enough so they couldn't use selling equity for those long-term projects; long-term debt was so expensive they didn't want to use that; so too many financed long-term projects with short-term debt. That screwed up their balance sheets.

There are a list of things that I agree government caused a lot of. The steel company management caused a lot of the problem, too. We all have to take our share of the blame.

But I don't think it is adversarial when on our fair trade laws we hit every deadline. We have not been over on one of them. Where we have found and vigorously prosecuted improper subsidies and dumping, we have brought in tens and tens of cases where we have done that and we are perfectly willing to apply the countervailing duty law unless the steel industry wants to settle.

I don't call that adversarial. I also don't call adversarial an honest difference of opinion on this quota bill, because I really think, as sure as I am sitting here, as a businessman, that if we have that quota bill the steel people will be less competitive 5 years from now internationally than they are now, that there will be more U.S. workers displaced overall as a result of that, and that inflation will be increased as a result of it. That is an honest difference of opinion.

My job, if I really believe that, I just can't roll over for the steel industry and say, "You fellows, everything you suggest is a fine thing." I just can't do that.

Mr. **Schulze.** Well——

Mr. **Pease.** Excuse me just a moment. I would advise the gentleman from Pennsylvania that we have about 5 minutes for our record vote. Does he wish to continue and have us recess the hearing?

Mr. **Schulze.** I have missed some before, so I will miss some again. Don't worry. I don't worry about missing the vote.

Mr. **Pease.** If you go 10 minutes, I will miss the record vote.

Mr. **Schulze.** You go ahead and the Secretary and I will chat.

Mr. **Pease.** Then we will have this be a chairless subcommittee.

Mr. **Schulze.** If we get bored, I will be happy to adjourn temporarily.

Mr. Secretary, do you have any suggestions on how to make our trade laws more responsive, or don't you think they need to be more responsive?

Do you think that people who are saying we have not gotten a fair shake or we find it impossible to secure justice are crybabies, or do you think there is something there, that there are ways in which we can make the trade laws more responsive?

Secretary **Baldrige.** On our countervailing duty laws, we have a deadline of 85 days, antidumping 160 days. The first thing we had to do when I came here was to shape it up so we were hitting the deadlines and didn't have to ask for extensions. We got through all those European cases, and now the spate of South American cases, and we have not asked for an extension since last July.

So the first part is to shape our own act up. Beyond that, we do have some suggestions as to how to speed it up further. And, if I may, I would like to ask Deputy Assistant Secretary Alan Holmer, who is working on this full time, if he could give you the details of some of those.

Mr. **Holmer.** Mr. Schulze, we have a number of suggestions that we have provided to the subcommittee as a part of the rewrite of the antidumping and countervailing duty laws.

I would like to have a chance to submit those, if I could, for the record.

They include such things as saying that there would be a doing-away with the concept of interlocutory judicial review. That is to say, you would hold all judicial review until the end of the proceeding; no legal rights would be lost, but there would be a substantial savings that would occur to those companies that do bring antidumping or countervailing duty cases.

We would also like to streamline the administrative protective order process whereby information that is provided by foreign governments is made available under administrative protective order to domestic industry so they can assist us in the analysis of that information.

We would also like to have a single ITC injury review in a situation where there is simultaneous filing of dumping and countervailing duty cases.

There is a list of another six or eight items of that nature as well as a list of about 45 technical amendments which we submitted to the subcommittee. We believe the law can be improved to make it simpler and fairer and provide relief in a less costly way to U.S. industries.

But we also believe that the law, at least in terms of its basic structure and time lines, is working effectively to provide relief where subsidies are found within 85 days.

Mr. **Schulze**. Do you have any feeling on the involvement of the State Department in the loop?

Secretary **Baldrige**. I can categorically state since I have been here in January 1981 that the State Department hasn't tried to interfere in this process or guide it. They want to be kept apprised of it because obviously it could cause them some problems along the way.

But I literally know of no—I don't know of any case where the State Department has said, "Well, we have good relations with this country, please don't, you know, find subsidies or dumping or anything like that."

Mr. **Schulze**. But they do get involved on the next level up when the President is about to make his recommendations, isn't that true?

Secretary **Baldrige**. That is only on the 201. On countervailing duty laws and dumping, no one gets involved but us. We have that authority given by Congress and we do it.

On 201, which is just straight injury, the ITC, semi-independent as a body, I believe, or independent body, I guess you would say, is the determiner of injury. They have the statutory deadline to meet. If they find injury in part or across the board, they so state and they also—or they don't find it, one of the two. If they find injury, they recommend actions to relieve the injury. At that point, the President has 60 days to either agree with them and go ahead with it, or say, no, I don't agree with it, or change it in some way.

Now, that is the only trade action that we are involved in with a situation where I know the whole administration pitches in on that and State would be one. But that is an ITC finding, not a Commerce Department finding.

Mr. **Schulze**. Do you think that if the ITC recommendations in 201 cases were then automatically implemented that it would help in the perception of speeding up and of equity within the business community?

Secretary **Baldrige**. I don't personally think so, Mr. Congressman, because I think there always should be that flexibility left to the President that was given to him for good reason. I don't think it should be changed.

I don't think any President that I am aware of has ever lightly overturned or changed an ITC injury finding and their recommendations. It has been done, but I don't think it has been done lightly. And I think that is the kind of flexibility that would be good to keep.

Mr. **Schulze**. But it happens more often than not, if I am not mistaken, that the recommendations of the ITC are not usually followed explicitly.

Mr. **Holmer**. As I recall, and we can correct this for the record, there have been four cases, as I understand, in this administration, motorcycles, specialty steel, where there was an affirmative ITC injury finding and where the President and the administration did find some kind of relief for the U.S. industry.

The two other cases, as I understand it, the ITC did not make an affirmative injury finding and therefore it never got to the President.

I would like to have a chance to double check that but——

Mr. **Schulze**. I am not talking just about this administration; I am talking a little more historic view. This is just the first bite at the apple, so to speak.

Secretary **Baldrige**. The reason there is some disagreement inside the steel industry itself about the 201 case that Bethlehem brought is because they see approximately two thirds of the imports coming from the European Communities, Japan and Canada that they don't think are excessive. They would like them less but they don't think they are excessive.

So they see a third from developing countries that they are upset about, and rightfully so, to my mind. But worldwide 201, that could well upset the European agreement which is about roughly a third, a quarter to a third. So that is a pretty chancy situation assuming for a lot of the steel companies, they feel, suppose 201 did come out of it affirmative? How will they know what will happen to the European situation?

The Europeans, of course, have said that they probably would abrogate that agreement and it is in their legal right to do so. Just the fact that Bethlehem Steel brought that case is legal grounds for Europe to abrogate the EC-U.S. arrangement now.

Mr. **Schulze**. With the knowledge of the worldwide overproduction and given a free rein, how would you solve it? What would you do if your best ideas could be implemented?

Secretary **Baldrige**. Well, there is sure no easy way to do it, but I think the restructuring that must go on around the world in closing down inefficient or outmoded plants instead of trying to subsidize them to give employment, simply must take place.

I think more and more countries in Europe particularly are finding, figuring that out. Their problem is a political cost of doing so but the actual dollar cost of subsidizing was getting so great that I have some hope over the next few years we will see that done.

I don't know what I would do about the natural affinity of new countries to build steel mills when there is already overcapacity in the world. I think that is a shocking case of bad judgment.

You see, small countries that want their own—developing countries, they want their own steel mill, their own airline, it is a question of prestige and glamour but it adds to the problem.

Mr. **Schulze**. Shouldn't we be sure we don't finance them?

Secretary **Baldrige**. Well, we took a pretty strong stand on that in the Commerce Department but I don't think that is a worldwide accepted stand. I hope it will be, because that is not serving the purpose.

Mr. **Schulze**. There is something else maybe along that line that we should be doing? Is there?

I agree with you, it is foolish. But how do we do even one or two small things which would have beneficial, practical assistance to solving the problem?

Secretary **Baldrige**. I wish it was that easy, Mr. Congressman. You know, the only thing—I don't want this to sound trite, but it is true, it is true in all my experience, you just can't depend on the rest of the world or the U.S. Government to make you competitive.

If you are in a business where there is that much overcapacity or anywhere close to the overcapacity, you are in a situation where you better be one of the lowest cost producers and figure out a way to do it, and even if wage rates are higher here, you have to do it by technology.

We have the greatest high-tech facilities in the world here, more so than Japan. There is no reason in the world why we can't get our steel companies together with high-tech if both sides are willing and there is the will to do that. I think the idea of deliberately setting out to become the lowest cost producer and trying to get out of your high-cost plants is the only way, only sure way to preserve the steel industry in this country.

Mr. **Schulze**. Well, of course, what you are talking about is rationalization and that has been going on to some degree, perhaps there should be more.

Secretary **Baldrige**. No. But I mentioned before the idea that we shouldn't be playing catch-up ball with the rest of the world on our steel plants. We ought to be looking forward to figuring out a way to leapfrog or double jump the state of the art. Other countries have done that before and we have lagged behind. We were not willing to take the risk in our industry.

We should be able to know. We should figure that way.

Mr. **Schulze**. We are talking about a lot of money and it is very difficult for an industry with the problems of the steel industry to go out and acquire that kind of money. But I agree, we are going to have to do something along those lines.

Mr. Chairman, thank you.

Mr. **Pease**. Thank you, Mr. Schulze.

Mr. Secretary, I would like to prolong the hearing about 5 more minutes to ask one additional question.

You say that you think some of the Third World countries are being irresponsible in building new steel-making facilities in light of the worldwide overcapacity. I guess what concerns me, if you grant that there is 20 to 30 percent overcapacity now—I don't know what the figure is—and the United States and Western Europe were to eliminate 20 or 30 percent of the most inefficient facilities they have, then ordinarily we would wind up with capacity at about right level for meeting demand. But, if at the same time Third World countries build new facilities, we would still wind up with overcapacity. We would have more modern facilities. They would have more modern facilities, new plants in either case, but they would still have a very substantial wage differential.

I am not talking about subsidies, but actual wage differentials.

I guess what I keep groping for is an understanding on my part about whether given a modern facility in Taiwan or South Korea, India or wherever, and a modern facility here—after we have gone through modernization—that we can compete with that extremely low-priced Third World wage. Are we are not kidding ourselves that we can overcome that advantage?

Secretary **Baldrige**. First, wage costs are not the largest cost in the steel business.

Mr. **Pease**. Granted.

Secretary **Baldrige**. Second, if you are running a steel business in the United States now, if I were, I would set out—if I were running a steel business in the United States now, I would set out to make it so competitive that none of the Third World countries could beat my cost without subsidizing, then if they subsidized, you got the trade laws to take care of that.

But if you just lie out there—if in effect you let everybody pass you up in technology and wage rates, you are in the soup. And there is no way to get around that fact.

Mr. **Pease**. So I gather that you have some confidence that through the application of technology and ingenuity, our industry could overcome that wage disadvantage?

Secretary **Baldrige**. We could. That is not saying we will, but we could.

I have listened to steel executives for 20 or 30 years saying that, well, you don't understand. We can't build Greenfield plants—that means putting out a new plant and so forth—because we have these other plants we have to fix up and there isn't enough land next to the coke and coal and so forth. So we have gone through a hodgepodge of modernizing half of a plant and you know the hot end and not the finishing end or vice versa, and we have not had a new Greenfield plant for a long, long time.

In the meantime, our competition like the Japanese and the Koreans have found a way to do that and so they have gone ahead and done it.

So I am saying it is possible, but the way to get that done is not by having a worldwide quota bill. That is just allowing competition to really force that to happen.

Mr. **Pease**. Thank you, Mr. Secretary. As usual, you have been a very fine witness and we appreciate your appearance before us today.

This does conclude today's hearing. I want to announce that our next day of hearings on the problems of the U.S. steel industry will be held next Tuesday, May 8; the room and witness will be announced later.

Let me also caution that it is conceivable that that planned hearing will have to be canceled if conferees are meeting on House bill 4170, the tax bill.

Thank you.

[Whereupon, at 3:30 p.m., the subcommittee adjourned, to reconvene on Tuesday, May 8, 1984.]

PROBLEMS OF THE U.S. STEEL INDUSTRY

TUESDAY MAY 8, 1984

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met at 11:40 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman Gibbons. Good morning, ladies and gentlemen.

The House is still in session for the Truman Commemorative Anniversary. One of our witnesses has been delayed by a fog that developed in Washington at the airport, but we will proceed anyway.

Today the Trade Subcommittee continues its hearings to examine the problems of the domestic steel industry. So far we have heard from Members of Congress and certain steel company executives who favor global import quotas and from the administration in opposition to import quota legislation.

Today we return to witnesses in the private sector. These witnesses represent a variety of different segments of the domestic steel industry who have serious reservations about the quota legislation. We will hear from a West Coast producer of steel plate; a West Coast producer of fabricated steel products and an East Coast manufacturer of rolled products; producers of wire products from both the Midwest and West Coast; and from an East Coast producer of specialty wire who already faces a quota restriction on specialty steel wire rod.

Our first panel of witnesses are executives from three different steel companies: Mr. Thomas Boklund, president of Gilmore Steel Corp.; Mr. Howard Wilkinson, vice president of the Pacific Steel Corp.; and Mr. Wolfgang Jansen, chairman of the board of Ohio River Steel Corp.

Gentlemen, your written statements will be included in the record in full, and if you would like to summarize or make any kind of statement, or to read your entire statement if you wish, we would be happy to hear from you.

If those first three witnesses would come forward, please.

Mr. Boklund, you may proceed first.

STATEMENT OF THOMAS B. BOKLUND, PRESIDENT AND CHIEF OPERATING OFFICER, GILMORE STEEL CORP.

Mr. Boklund. Thank you, Mr. Chairman.

I am Thomas Boklund, president of Gilmore Steel Corp. Yesterday we submitted copies of our formal statement and now I would like to summarize with the following.

Gilmore Steel Corp. appreciates the opportunity to appear before the subcommittee today to state our opposition to the steel quota bill. Gilmore's steelmaking division, Oregon Steel Mills located in Portland, OR., is a producer of carbon and alloy steel plate. The mill was constructed on a greenfield site in 1969 and is a modern, efficient plate facility. We have an ongoing program for improving productivity, through capital investment and cost reductions.

Today, Gilmore is a cost-effective reliable supplier of steel plate for commercial and military applications. Until late 1983, Gilmore and Kaiser Steel were the only producers of plate products on the West Coast. Kaiser terminated its mill operations last year, leaving Gilmore as the sole producer of steel plate on the west coast.

The only Government help we at Gilmore ask for is strict enforcement of trade laws to maintain a fair marketplace. Gilmore has competed successfully against fairly priced foreign steel. However, imports of unfairly priced steel dumped into our market are a threat to our continued viability. The market on the west coast is vicious at best. Imports of plate products have increased substantially in our west coast market and import penetration reached 42 percent in 1982 and 1983. And for all steel products imports exceeded 50 percent.

Gilmore has been hurt by distortions in the Western market caused by past administration programs to help the national steel industry. These programs actually made things worse in our western market. Western producers were put at a disadvantage relative to both domestic and foreign competitors. For example, the trigger price mechanism was a disaster to western steel producers because it gave European and other high cost producers a license to dump in a market where they could not otherwise naturally compete.

Likewise, the EEC steel arrangement which is a miniquota system has failed in the West.

Initial forecasts used to administer the arrangement were so generous that European producers cut prices to fill their quotas. EEC producers now must undersell Korean and Japanese producers who have lower shipping costs and are more efficient producers. The result is the same: dumped steel into our market.

Gilmore believes this bill contains the same flaw. It fails to address the unique requirements of the Western market. Many of our domestic competitors advocate a quota system but Gilmore believes that predatory import price undercutting in the Western market would persist and thrive under the protection of a national quota.

Implicit in a quota scheme is the proposition that imports within the quota may be sold at any price. This bill does nothing to disclaim this proposition.

Under a national quota scheme efforts to staunch the flow of dumped steel in the West by bringing an antidumping or countervailing duty case would be substantially more difficult because of the problem with proving material injury to an industry of the United States if a national quota is being complied with.

Mr. Chairman, I would like to stress that the Western regional market is materially different from the rest of the national market. If you examine the Western region separately it becomes clear why Eastern producers are pushing this quota scheme. They say that national import penetration was about 22 percent last year. You take the Western market and Western imports out of the equation and the real import penetration in the non-Western regions was really 19 percent. The quota bill would not limit imports to 15 percent in the East. If you limit imports to 15 percent of the national market and assume historical import volumes to the West, the non-Western import penetration would be only 11 or 12 percent.

We have tried unsuccessfully to get the industry supporters of this bill to include regional considerations. They tell us it would unduly complicate the bill. If that is true, then the bill should be defeated.

The bill is designed to be simple and does not address regional patterns. The bill contains no safeguards against unfair pricing of imports to the West. There is no relief against the concentration of imports to the West. Conversely, if steel availability for products we don't make becomes a problem, there is inadequate provision in the bill for west coast steel consumers. If our customers suffer, we suffer.

Ironically, the bill fails to consider the needs of both producers and consumers in the region most severely impacted by foreign steel.

In conclusion, we urge the subcommittee to concentrate its legislative and oversight efforts on strengthening and enforcing existing trade laws. The goal should be to assure fairness in our steel markets including our regional markets.

Thank you for this opportunity to express our opposition to this bill.

[The prepared statement follows:]

GILMORE STEEL CORP.,
Portland, OR, April 24, 1984.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade, House Ways and Means Committee, Longworth House Office Building, Washington, DC.

DEAR CONGRESSMAN GIBBONS: Gilmore Steel Corporation, the West Coast's only producer of steel plate, opposes H.R. 5081. Gilmore's steelmaking division, Oregon Steel Mills, Portland, Oregon, has felt the impact of unfairly priced steel along with the rest of the industry. But Gilmore has also felt the additional impact of distortions in the Western market in the past resulting from government programs to cope with steel imports on a national instead of a regional basis. These programs have consistently put Western steelmakers at a disadvantage relative to both domestic and foreign competition. This Bill contains the same flaw.

Constructed on a "greenfield" site just fifteen years ago, Gilmore's plate mill is technologically advanced and is one of the world's most efficient plate facilities. Gilmore has improved productivity dramatically through capital investment and cost reductions. Gilmore is a cost-competitive, reliable supplier of steel plate for commercial and military applications.

The Western steel market is dominated by imports. The import penetration in the West is over twice the national average. Attachment 1 illustrates the concentration of imports in the Western market. Gilmore has competed successfully against fairly priced foreign steel. Injury from imports of unfairly priced steel, however, is a constant threat to the viability of this strategically important facility.

Past government programs dealing with steel imports solely on a national basis have been uniformly unsuccessful in the Western market. The Trigger Pricing Mechanism (TPM) forced Western steelmakers to compete against lower foreign prices than steelmakers in the East. One consequence was a sharp upturn in imports to the West Coast imports from Japanese to European and other steelmakers under the TPM. After over three years of living under the TPM, Western steelmakers found themselves bombarded with far greater volumes of imports than before the TPM was instituted, while import penetration declined in the rest of the country.

The EEC Steel Arrangement (mini-quota systerm) has likewise failed in the West. Market forecasts of place used to administer that Arrangement in early 1983 were so generous that European producers cut prices to fill their quotas. This price cutting drove the price of plate imports in 1983 to levels as much as 40 percent below the price of plate imports in 1983 to levels as much as 40 percent below the price previously considered to be "legal"—the 1981 "trigger" price under TPM. Although the EEC producers were clearly dumping steel in the Western steel market, this price undercutting was made safe from dumping duties by the desire of the government and nonwestern segments of the industry to avoid a feared withdrawal by the EEC from the Arrangement. Gilmore filed an antidumping petition challenging West German and Belgian plate sales in 1983, but the petition was met with resistance at the Department of Commerce and within the industry because it was seen as a threat to the Arrangement. Consequently, the petition was dismissed and that dismissal is now on appeal.

By the same token, predatory import price undercutting in the Western market would persist and thrive under the regime of a national quota. Implicit in a quota scheme is the proposition that imports within the quota may be sole at any price. This bill does nothing to disclaim that proposition. Under a national quota scheme, efforts to staunch the flow of dumped priced steel in the West by bringing an antidumping or countervailing duty case would be substantially more difficult because of the problem with proving "material injury" to an industry of the United States if a national quota is being complied with.

Of course H.R. 5081 would be complied with even if most of the national quota for plates landed in Western ports of entry. The Bill contains no safeguards against the concentration of imports in the West. It would not limit any import volume to the West Coast. No additional measures to deal with regional concerns would be possible under the Bill unless and until "material changes in historical patterns with respect to regional distribution" were to occur. Section 4(h). Well, the historical patterns of West Coast import penetration (nurtured by U.S. governmental programs that failed in the West) range from 35 to 60 percent, depending on product. Refer, again, to Attachment 1 to see the concentration of steel imports in the West. Under H.R. 5081, imports at those volumes could persist in the West while the national import penetration is rolled back from 26 percent to 15 percent. In fact, since H.R. 5081 gives 15 percent of the national market for plate to foreign producers, and contains no regional allocation, nothing in the Bill would prevent, say, two-thirds of the quota from being shipped to Portland, Seattle and San Francisco at unfair prices.

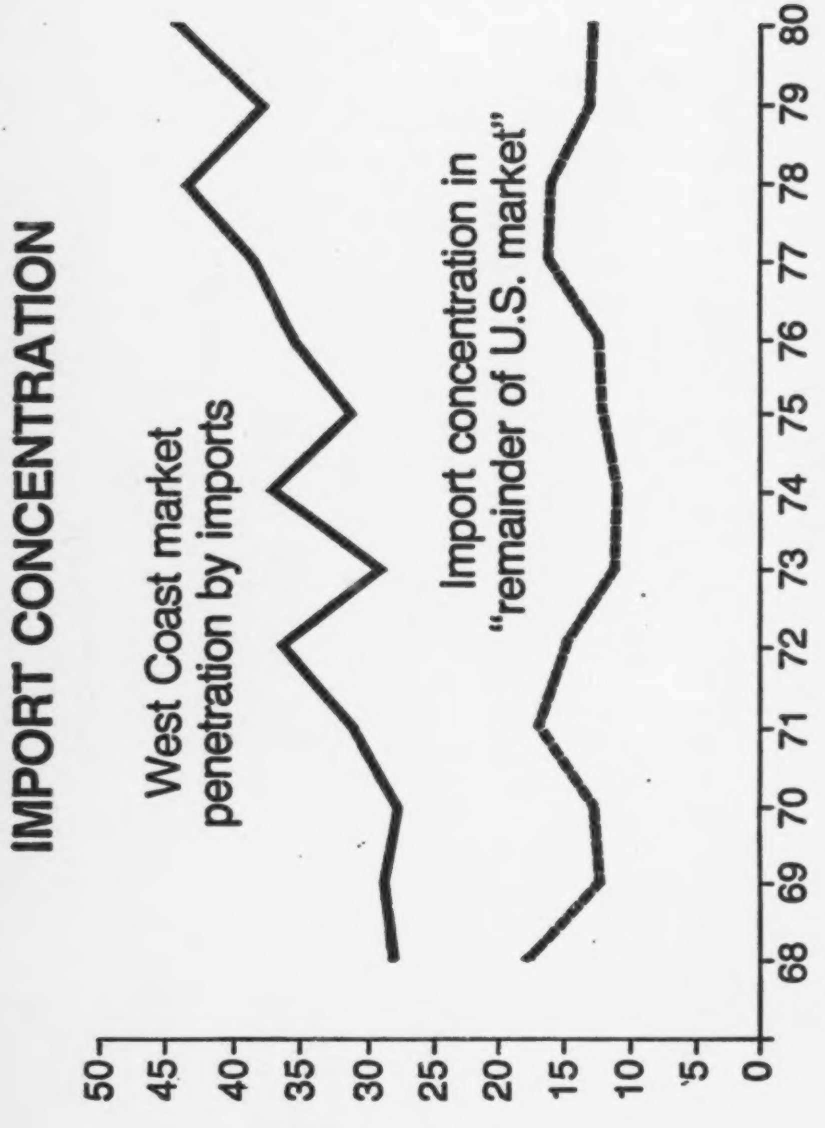
Thus, under the Bill, there would be no volume relief and no price relief for domestic producers in the region most severely impacted by foreign steel. Indeed, there would be a substantial legal setback for Western producers since the antidumping and countervailing duty remedies would be made substantially more difficult to obtain. The Bill is not meritorious and indeed is misquided in its approach to a matter best dealt with by strict enforcement or existing unfair trade laws.

Therefore, Gilmore Steel opposed H.R. 5081 since it fails to adequately safeguard Western steelmakers against unfairly priced foreign steel. We request that this letter of opposition be included in the record of your hearings on the Bill proposed for April 26, 1984.

Very truly yours,

THOMAS B. BOKLUND,
President, Chief Operating Officer.

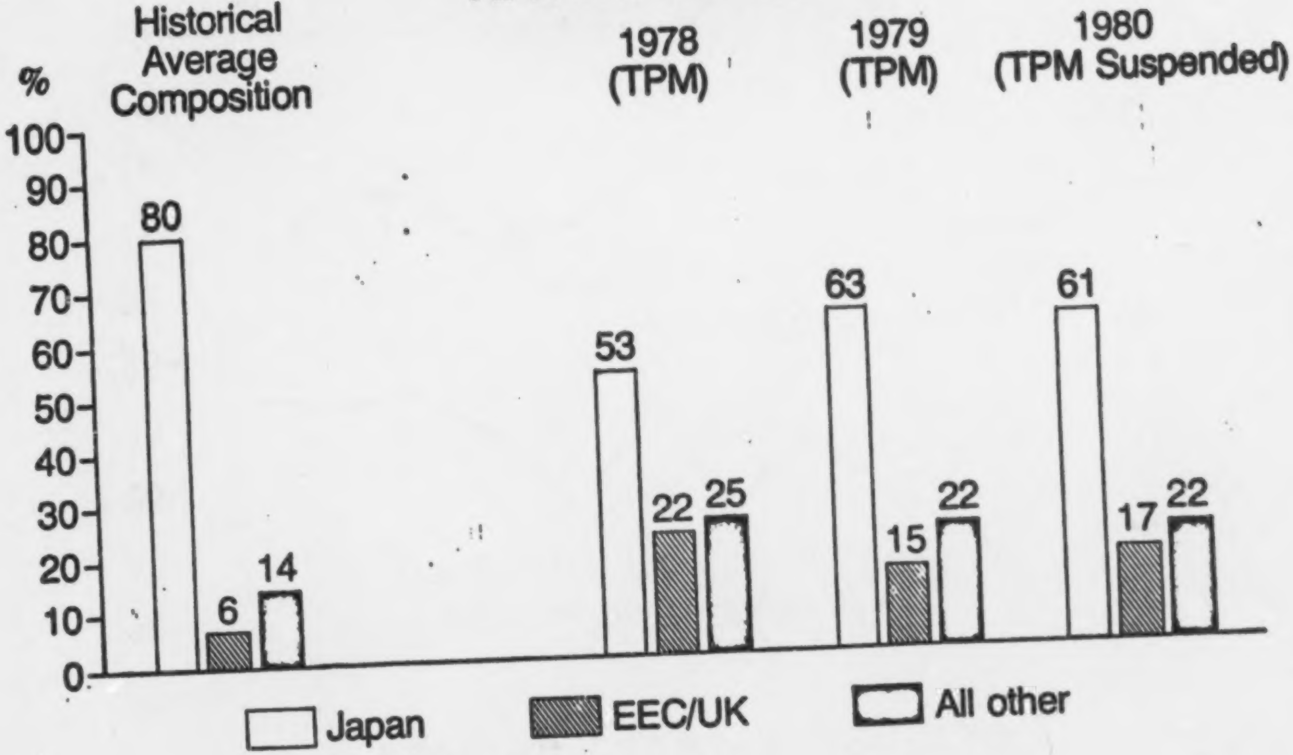
Attachment 1



IMPORT CONCENTRATION

Attachment 2

SOURCES OF WEST COAST IMPORTS HAVE SHIFTED



Chairman GIBBONS. You certainly bring an interesting perspective. We will go to the next witness before we have a discussion here.

The next witness is from Pacific Steel, Mr. Wilkinson.

STATEMENT OF HOWARD L. WILKINSON, VICE PRESIDENT, PACIFIC STEEL CORP.

Mr. WILKINSON. I am Howard Wilkinson, vice president of Pacific Steel Corp. I wish to thank the subcommittee for giving me the opportunity of appearing before you today to address the critical questions of whether import restrictions on steel mill products are necessary or desirable.

Pacific Steel Corp. is in the process of purchasing the facilities of Kaiser Steel at Fontana, CA—facilities for the manufacture of flat rolled carbon steel products, which have been closed since the end of 1983. The west coast market urgently needs the reopening of this mill, because of the lack of production of steel mill products, and particularly flat rolled products in this region. Pacific Steel is the only prospective buyer for this mill. Unless it is reopened within the next few months it will deteriorate to the point where it will be permanently inoperable, and good only for scrap.

Metalworking industries, dependent upon a secure supply of these products, are being threatened with extinction because of the historic lack of steel-producing facilities in the region, and the ever-increasing efforts of the domestic basic steel industry and its unions to close the United States, including the west coast, to steel imports.

Companies related to Pacific and each other, including Tecrim Corp., Cal-Chrome, Inc., Rich Steel Co., and Kaiser Pipe & Casing Corp. taken together constitute the single largest end use consumer of flat-rolled products in the Western States. They produce such products as rims, automobile wheels, and oil country tubular goods, and distribute flat rolled products as well. Previously almost all of this flat-rolled steel was supplied by Kaiser Steel.

Prior to the decision to acquire Kaiser's Fontana works, and under the threat of quantitative limitations on the flat-rolled products the management of these companies was seriously considering moving many of these operations out of the region, with some going to Mexico to take advantage of low-cost world market steel and some possibly to other parts of the United States to take advantage of a broad domestic supply source.

With the reopening of the former Kaiser mill, these manufacturing and distribution operations will again become viable. They consume about 250,000 tons of flat-rolled products per year. Obviously, there are many other manufacturers in the area who require flat-rolled carbon steel including Kaiser Steel Corp. who will also be served by Pacific. Without question this mill will revitalize the metalworking sector of the west coast and save and create many jobs. Insofar as the direct consequences are concerned, we anticipate shipments in the first year of approximately 700,000 tons of hot-rolled, hot-rolled pickled and oiled, cold-rolled, and galvanized coils. We anticipate startup employment of 450 people at this mill, which will depend upon imported steel slabs for its feedstock.

The importation of slabs to help make domestic rolling and finishing mills competitive has become something of an emotional issue in the United States. The fact of the matter is, that otherwise unprofitable, integrated facilities can be kept operating if reasonably priced semifinished steel mill products, including in our case, slabs, are available. The reason that imported slabs are required is that there is no efficient raw-steel capacity in the region which can supply this facility, and overland transportation costs make the use of domestic slab from eastern mills impossible. Prior to its closing Kaiser had relied on imported slabs for a number of years to supply the Fontana mill.

A recent study conducted for the Senate of the State of California by the California Senate Office of Research, dated July 1983, observed that there are no efficient, integrated steel mills on the west coast due to the oligopolistic practices of the U.S. industry. They supplied the area, at the price of their eastern facilities plus freight. The only existing integrated mills in the Western States, at Fontana and the United States Steel mill facility at Geneva, UT, were originally constructed by the U.S. Government for strategic reasons during World War II. Because of built-in inefficiencies, these mills have always had difficulty competing as integrated mills. We are confident of success at the Fontana mill if we are permitted free access to low-cost slabs—wherever we find them.

There has been a severe problem in the Western States flat rolled steel market since the closing of the Fontana mill with price increases of more than 20 percent and product shortages. The reopening of Fontana will hopefully resolve this disequilibrium in the market and give to steel consuming industries in the region some sense of security with regard to steel supply.

Obviously if quotas, whether legislated or administratively imposed, are placed on semifinished steel mill products, including slabs, the viability of the Pacific Steel venture will be seriously called into questions. Furthermore, I know that the management of our related companies would be forced to consider moving their operations from the west coast out of the region, with some possibly going to Mexico, and some to other less geographically isolated parts of the United States.

H.R. 5081 and similar efforts are wrongly headed and illogical at best. The U.S. economy cannot stand the inefficiencies which would spread throughout its manufacturing industries if such a basic raw material, in the production of other products, as steel were protected from competition by comprehensive import quotas. As it is, this sector has already received more than its share of import relief.

Despite these periods of Government intervention in the marketplace, a restructuring of the industry has taken hold and hopefully a new, leaner, far more efficient industry is emerging. The last thing in the world the Congress ought to do is to slow down this adjustment process, no matter how much special interest pleading is brought to bear.

Pacific Steel wants to be a part of this new American steel industry, and be able to supply manufacturing industries on the west coast with flat-rolled products with a high U.S. added value—certainly higher than will be the case if steel quota restrictions are imposed.

We know, because we are also in the manufacturing business, that if steel imports are retstricted but imports of finished products will remain unrestricted that we cannot compete. When our foreign competitors can buy low-cost steel but we cannot, we are out of business. The alternative is for us to move our manufacturing facilities offshore and use the same foreign steel as our competitors do. If we are forced into this course of action, where is the benefit to the U.S. economy in steel-import restrictions? There is none. Eventually even the steelworkers who may initially benefit from the restrictions lose because the U.S. manufacturing sector continues to shrink.

Of course, Congress or the President could impose quotas on all imported products containing steel. In fact, this course of action will be necessary if steel is restricted for any length of time in order to protect a wide range of manufacturing industries. It is questionable that this is a direction in which U.S. trade policy ought to be moving.

Most illogical of all would be restricting imports of semifinished steel mill products, particularly slabs, since they can only be used by the U.S. steel industry itself. Imports of these products are a manifestation of a truly integrated international economy, allowing companies such as Pacific to operate efficient rolling facilities in the United States that will otherwise be uncompetitive.

We at Pacific Steel urge this subcommittee to reject all efforts to impose comprehensive import restrictions on steel imports, especially semifinished products. We believe such restrictions would be the wrong policy for the U.S. economy as a whole, and would be disastrous for west coast steel consuming industries in particular.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, sir.

You bring up some points I had never thought of.

Mr. Jansen.

STATEMENT OF WOLFGANG L. JANSEN, CHAIRMAN OF THE BOARD, OHIO RIVER STEEL CORP.

Mr. JANSEN. Thank you, Mr. Chairman.

Mr. Chairman, members of the subcommittee, my name is Wolfgang Jansen, chairman of the board of Ohio River Steel Corp. Thank you for providing me, on behalf of Ohio River Steel Corp., this opportunity to state for the record our unique problems with H.R. 5081, the Fair Trade in Steel Act of 1984.

Ohio River Steel is a steel rolling minimill located in Calvert City, KY. We are a new company, less than 1 year old, which employs 266 people.

Two and one-half years ago I convinced a group of investors to commit $80 million to the construction of what, by any standards, is one of the most efficient rolling mills in the entire country, if not the world. My case and my investors' decision was, in the final analysis, based upon the often stated position of administration after administration that the free trade goals historically pursued by the United States would remain constant and dependable.

Enactment of this legislation would be a dramatic repudiation of those historical free trade goals.

I won't bore this subcommittee with a long detailed discussion of why Ohio River's supply needs differ from most of the industry but will state briefly the problems those differences cause us.

Problem No. 1: Ohio River Steel Corp. operates without any melt shop facilities; therefore, it depends on the purchase of semifinished products for its existence. A domestic supply of semifinished steel in the sized Ohio River requires is severely limited. Our process requires 6 and 8 inch square steel billets. An overwhelming percentage of the limited domestic supply of available semifinished steel is sized only 4 to 5 inches square.

Problem No. 2: When Ohio River Steel can buy competitively priced domestic steel, we do so. Since the day we opened our doors we have purchased all such steel that we could. Despite our buy-domestic policy, however, we depend heavily on imports as the principal source available.

Problem No. 3: Ohio River Steel finished goods in April were priced at an average of $275 per short ton. The published price for semifinished steel—even the limited amount that is available—is $347 to $369 per short ton—$72 to $94 per short ton more than we sold our finished products for in April.

Problem No. 4: Even if the large integrated mills wanted to produce an adequate supply of semifinished steel for domestic sale and could do so at competitive prices, they wouldn't because if they did they would encourage rather than discourage competition. A classic example of what I mean can be seen in two price quotes Ohio River Steel received within the past 9 months. On July 26, 1983, Wheeling-Pittsburgh quoted us a price of $278 per short ton FOB Wheeling, while on November 17, 1983, Bethlehem quoted us a price of $318. I respectfully remind the subcommittee again that Ohio River's finished products sold for $290 per short ton as late as 1 month ago.

Gentlemen of the subcommittee, Ohio River Steel would like nothing better than to have a safe, secure, adequate, competitively priced domestic supply of semifinished steel in the size necessary to service our needs. The fact is we don't.

The further fact is that, if our supply of the semifinished steel we need to make our mill run is shut down, our plant will shut down.

How, gentlemen of the subcommittee, can that possibility be considered good for America's economy or America's security?

We at Ohio River Steel respectfully urge this subcommittee to reject H.R. 5081.

Thank you.

Chairman Gibbons. Well, I want to thank each one of you. Each one of you brought something unique and new to this discussion that I had not heard before.

From Gilmore Steel, the statement that you filed last night assumes that the effect of quotas will be to drive down prices of steel imports if the supply of imports is restricted. Why wouldn't this tend to drive up prices? That is the first question that I have for you.

Mr. Boklund. Mr. Chairman, I think that answer to that lies in the historical patterns. Most recently the EEC steel arrangement—which is in itself a miniquota system—the results in the Western regional market has been, simply explained, predatory pricing has taken place in that market to achieve its share or their share of the quota.

Now, historically, even under trigger price, which was a different approach, allowed steel to come in, in a market that historically was not the pattern of the Europeans.

The real answer to it, basically, is the predatory price of these imports.

Chairman GIBBONS. It just would seem to me that any time you limit imports that the imports that come in would shift to the higher value end of the product scale. Maybe I don't understand exactly what you do in your business.

Do you produce any steel yourself?

Mr. BOKLUND. Very definitely. We produce carbon and alloy steel plate.

Chairman GIBBONS. Plate.

Do you buy slab and finish it or do you manufacture the slab?

Mr. BOKLUND. No; we have our own hot metal facilities. We produce hot metal to a slab with pressure casting that has the same economies as the continuous casting. This eliminates a step in the steelmaking process itself and we have a high reversing mill that finishes the slabs to plate specifications, three-sixteenths is the lightest gauge plate up through 3 inch.

Chairman GIBBONS. All right.

Mr. BOKLUND. The market in the west coast has been dominated by imports. The market itself historically—our market in plate for 1982 and 1983, 42 percent of the plate consumed was imported. It is a very competitive market area. We have been able to compete successfully against fairly priced imported steel. But traditionally the historical patterns have shown—and particularly under the EEC agreement where initially those estimates used to establish the numbers were so generous that allowed or forced importers to drop prices to achieve their percentage of the market.

Today the predatory pricing continues from the EEC into the west coast undercutting the Japanese and Koreans to achieve their quota relief.

Chairman GIBBONS. You are saying that by restricting the total inflow to 15 percent you feel you would have a hard time proving material injury in unfair trade practices cases; is that what you are saying?

Mr. BOKLUND. That is correct.

Chairman GIBBONS. That is the thrust of your testimony. It has never been brought out before, as far as I know. Maybe it is just an obvious fact we overlooked, or maybe we know very little about what is going on in the west coast area—that is probably the big reason.

Mr. Wilkinson, you say that your company is purchasing Fontana Works from Kaiser, and plans to rehabilitate it—it being an old World War II facility. I remember when it was built. You say that you don't expect to produce slab there; is that correct? You are going to buy the slab from offshore producers?

Mr. WILKINSON. Yes, Mr. Chairman. The rolling mill facilities at Fontana, although construction began in the war years, the hot strip mill, for instance, was installed in 1958, I believe and other facilities were added up until 1979 when new facilities additions ceased.

The front end of the mill, the hot end of the mill can never been operated again. The cost of rehabilitating it was impossible. It was an inefficient operation. It would be our intention to refurbish and reopen the finishing facilities to take us a slab, reheat it, and roll it into a number of flat rolled products.

Chairman GIBBONS. So in effect the cost of rehabilitating the slab-producing end of Fontana is just out of the question, and you are going to have to abandon that part of the operation? Is that right?

Mr. WILKINSON. That is correct. Kaiser Steel had themselves determined this some years ago and had been importing slabs for the final 2 years of their operations.

Chairman GIBBONS. Is it impossible to produce slab on the west coast at a competitive price—not just in your mill but in other mills—for this kind of market?

Mr. WILKINSON. I wouldn't like to argue with Gilmore Steel, and their slab production operation which is from the electric furnace operation——

Chairman GIBBONS. They are considerably north of you, is that right?

Mr. WILKINSON. Some thousand miles, yes. The other nearest facility is at Geneva, UT, of United States Steel.

Chairman GIBBONS. That is all overland transportation for Geneva, isn't it?

Mr. WILKINSON. Yes, it is. It is about $30 a ton in rail freight from Geneva, UT to Los Angeles.

Chairman GIBBONS. OK.

Mr. WILKINSON. The facilities at Geneva are old, open hearth operations which are very old fashioned steelmaking today.

Chairman GIBBONS. But is it your opinion that it is just not possible for anyone to go to the west coast of the United States and build a mill that would produce slab in an integrated type of operation?

Mr. WILKINSON. In my opinion it will never, never happen.

Chairman GIBBONS. Why is that?

Mr. WILKINSON. The cost of the installation of those facilities to get efficiencies of scale does not match with the market requirements in the area.

Chairman GIBBONS. Is it a lack of raw material in that area that also makes it uneconomical?

Mr. WILKINSON. No, sir; there are good coal supplies and good iron ore supplies, but the cost of rebuilding the facilities themselves from blast furnaces, coke ovens, and steelmaking facilities is just far too expensive for it ever to be done again.

Chairman GIBBONS. Is the Fontana plant anywhere near the coast? I know it is in California, but I don't know exactly where it is.

Mr. WILKINSON. It is 56 miles inland from the coast.

Chairman GIBBONS. I see. So you are still subject to a lot of overland transportation costs, both for raw materials and finished product, aren't you?

Mr. WILKINSON. Slabs would move from the docks in Los Angeles to the mill by unit train. The cost is quite reasonable and is manageable within our expectations.

Chairman GIBBONS. Now, Mr. Jansen, in the Ohio River plant, you built a finishing mill there. Is that what you did?

Mr. JANSEN. Yes, sir, a rolling mill.

Chairman GIBBONS. You say you can't buy semifinished products that are large enough. What are you making at your mill?

Mr. JANSEN. We produce medium-sized structurals, I-beams, channels.

Chairman GIBBONS. I-beams and things of that sort, I see.

And if you tried to buy the raw material from an integrated mill, what would be the result?

Mr. JANSEN. We would have to pay more for our raw material than we sell our finished products for.

Chairman GIBBONS. I have had other people tell me the same thing over the years.

Mr. JANSEN. We need free access to the world market.

Chairman GIBBONS. The integrated producers don't want to sell the raw material; either that or their price is vastly undercut by their competition.

Mr. JANSEN. I think it is a combination. No. 1, they don't want to sell us because we compete with them; and second, their cost of steel-making is fairly high.

Chairman GIBBONS. Yes.

Mr. JANSEN. And maybe not based on international standards. I think it is a combination of these two factors.

Chairman GIBBONS. Where do you get your raw material from?

Mr. JANSEN. We have purchased about 50 percent of our billets and blooms from domestic minimills. We have imported the other 50 percent from Europe.

But I am afraid if imports would be interrupted, we would have a tough time buying all our requirements from domestic mills. We have bought as much from domestic mills as we possibly could.

Chairman GIBBONS. You at Gilmore are saying in effect that because imports are already so high on the west coast, that if you had to cut down to 15 percent—I am having difficulty with your analysis. Go over that again, if you would.

Mr. BOKLUND. If I might answer that. I don't think anyone has come up with an answer on a quota system that has worked particularly in consideration of regional markets.

The situation will not be 15 percent in the West. There is no limitation on imports to the West. We are talking about a national quota.

Chairman GIBBONS. Yes.

Mr. BOKLUND. I think it is interesting to look regionally in the market, when we talk about a 15 percent national quota bill, you take the Western market out of the situation and you have a much less import concentration, probably 11 or 12 percent if you take the Western market out, really.

Historically, the West Coast has received the lions's share of imports. All steel consumed on the west coast is 50 percent or better imported.

I think looking—you mentioned the problem of being competitive—when the trigger price system came on, the government established the Japanese producers as the most efficient producers in the world and when the trigger price was terminated at the end of 1981, they gave a certain price for steel that was based on that Japanese production. But in the last year, that same steel product in plate was selling from 20 to 40 percent less than what it was really under the trigger price in 1981. Clearly, that constitutes dumping.

The question is, we talk about efficiencies in steel making—we have an efficient, competitive, quality operation and we have competed successfully with fairly priced imports. But we cannot compete with dumped steel in the market and where it is artificially pushed into our market in order to meet a quota.

But the national quota bill is not 15 percent when you look at the higher concentrations of imports to the west coast.

Chairman GIBBONS. Alright, sir. Well, all of this has been very interesting. I appreciate your coming the great distances you all have come to tell us about this.

I have read your statements. I will go over them again in their entirety, though, and see what we can do about all this.

Mr. JANSEN. Mr. Chairman, may I make one brief comment?

Chairman GIBBONS. Certainly.

Mr. JANSEN. The thing that sort of surprises me is the fact that a company like U.S. Steel is trying to restrict the import of semifinished steel when a year ago they were themselves engaged in a very serious discussion with British Steel Corp. to import 3 million tons of slabs a year.

Chairman GIBBONS. There are many questions yet to be answered in all of this, many questions. Hopefully we will get them all answered, too.

Thank you very much.

Mr. JANSEN. Thank you, sir.

Mr. WILKINSON. Thank you.

Mr. BOKLUND. Mr. Chairman, just to followup, a follow-on question.

The EEC steel arrangement, which is the miniquota, has not kept the Europeans from dumping or underselling us by hundreds of dollars. And again, this bill wouldn't either prevent this from happening when you mentioned our trade laws.

Thank you.

Chairman GIBBONS. I realize that and I realize it is going to be very difficult to prove injury if imports are reduced over all.

For some reason, that never struck me before, but when you start talking about it, I can see the problem. While this bill does not in itself suspend the unfair trade practices laws, it, in effect, will suspend them because it is going to be very difficult to prove. When you have a government license to a government-regulated market out there, you are sort of stuck with it.

Mr. BOKLUND. Yes.

Chairman GIBBONS. Plus, the United States is so complex that what can work in some other small market just doesn't work in a market as complex and large as ours. That seems to me to be the real problem in all these types of legislation.

Thank you very much.

We will now have another panel with the American Wire Producers Association. I understand Mr. Buckley is not available because of a weather problem. We have Mr. Chancler in his place.

We also have the West Coast Ad Hoc Steel Producers Committee, Mr. McNew and Mr. Suchman. And the Maryland Specialty Wire Co., Richard Nash, president.

Why don't we start with Mr. Chancler.

STATEMENT OF LEO F. BUCKLEY, MANAGING DIRECTOR, N-S EXPORT CORP., AS PRESENTED BY ROBERT CHANCLER, MANAGING DIRECTOR OF THE AMERICAN WIRE PRODUCERS ASSOCIATION

Mr. **Chancler.** Thank you, Mr. Chairman. On behalf of Mr. Buckley, I would like to apologize but he is stranded by the weather out in the Midwest and unable to make it in.

You have been provided a copy of Mr. Buckley's statement, but with your permission, I would like to read an abbreviated version of it.

Chairman **Gibbons.** Fine. We will put the statement in the record.

Mr. **Chancler.** I am Robert Chancler, managing director of the American Wire Producers Association. Mr. Ed McNew on my right is also a member of our board of directors, and is the chairman of our government relations committee.

I am speaking to you today on behalf of the AWPA on matters of great concern to the future of the wire industry in our country.

The members of the AWPA purchase steel wire rod, and manufacture wire and wire products. We have plants located in over 20 States and we employ thousands of productive American workers. We manufacture hundreds of different types of steel wire and wire products which are used in every segment of the U.S. economy.

Our products range from coat hangers and chain link fence to precision wire used in automotive cables and springs. We are an important part of the American steel industry. In fact, the independent wire drawers supply 60 percent of the domestic wire market, far surpassing the integrated steel producers and imports.

In 1983, independent wire drawers shipped almost 3.7 million tons of wire and wire products. By comparison, the integrated mills shipped 1.3 million tons, and imports accounted for another 1.6 million.

Nevertheless, our part of the industry tends to be overlooked by the decision makers here in Washington.

In the current Section 201 investigation of steel, the ITC, International Trade Commission, has prepared statistical tables on U.S. shipments, imports, exports, and consumption of steel products. In the case of wire and wire products, however, the tables are completely wrong. It appears that the ITC has calculated domestic shipments of wire and wire products on the basis of shipments by the integrated producers only.

The ITC figure for 1983 shipments is only 1.3 million tons and, as I just explained, the independent wire drawers shipped 3.7 million tons of these products last year, almost three times the tonnage shipped by the integrated producers.

It is crucial that our Government understands the primary role we independent producers play in the wire industry. One of the reasons for my appearance before you today is to invite the subcommittee's attention to our part of the steel industry.

Chairman GIBBONS. Let me interrupt here and ask whether you have brought this to the attention of the ITC, this matter of incorrect data?

Mr. CHANCLER. We will be doing so. We will testify at the 201 hearing on Friday.

Chairman GIBBONS. I would be interested in following that because we look upon the ITC as being rather well-informed, although I realize well-informed people can foul up every now and then. To have left out that much—your figures are 3.7 million tons from the independents, and imports are 1.6, did you say?

Mr. CHANCLER. 1.6, yes, sir.

Chairman GIBBONS. And the ITC only includes 1.3 as being the total apparent consumption in the United States?

Mr. CHANCLER. That was the domestic producer consumption, 1.3 to 1.6. Actually the market breaks down—latest statistics are 60 percent for independents, 25 percent for imports, and 15 percent for the integrated producers.

Chairman GIBBONS. I'm sorry to hear of an apparent foul-up. I would like to follow that up. I will ask my staff to follow it up, too, so we can make sure we don't overlook a vital part of that industry.

Go ahead, sir. Excuse me for interrupting, sir.

Mr. CHANCLER. Mr. Chairman, our association is opposed to any quotas or other restrictions on importation of steel wire rod, the basic raw material of our industry.

Wire rod is the largest single component in the cost of making wire. To our members, the price paid for wire rod is anywhere between 40 and 75 percent of the selling value of the finished wire or wire product. This cost is greater than wages, depreciation, taxes, or energy.

As rod prices increase, and they will surely increase dramatically if there are restraints on imported rod, so will the prices of our wire and wire products. We as an industry will face decreased margins and reduced volume of sales.

We believe that domestic wire drawers are as efficient or better than foreign producers. If, however, our raw materials cost increases as a result of nonmarket forces, we will find ourselves in a position where we can no longer compete with the foreign wire producers.

Quotas will also result in artificial limitations on the availability of rod both in terms of quality and quantity. I am sure that Ed McNew will explain the particular problems faced in this regard by wire drawers on the West Coast.

Our members have different needs in terms of size, quality, and other specifications for rod, some of which are not produced domestically in sufficient quantities to meet demand. Import barriers will create further damaging shortages of supply.

Another effect of quotas will be the downstreaming of products by foreign producers. Instead of shipping wire rod to the United States, they will ship wire and eventually the finished product itself, whether it is a spring, coat hanger or automotive cable. Our industry will then be hampered by a devastating cost price squeeze in which our raw material prices are increasing while our foreign competitors will be selling finished wire and wire products made from rod obtained at world market prices.

In conclusion, Mr. Chairman, the AWPA opposes any artificial barriers to the importation of wire rod. Such measures are temporary Band-aid remedies which have not worked in the past. We as an industry are willing to let the market decide and to take our chances in a free enterprise system unencumbered by quotas, restraints or other barriers to trade.

On behalf of the AWPA, I want to thank you for giving me the opportunity to tell you of our industry. Thank you.

Chairman GIBBONS. Fine. And express our regrets to Mr. Buckley. We all understand complications caused by bad weather. All of us have been hampered by it in one way or another.

[The statement of Leo F. Buckley follows:]

STATEMENT OF LEO F. BUCKLEY, MANAGING DIRECTOR, N-S EXPORT CORP., NATIONAL-STANDARD CO., AND MEMBER OF THE BOARD OF DIRECTORS, AMERICAN WIRE PRODUCERS ASSOCIATION

Mr. Chairman and members of the committee, my name is Leo F. Buckley, and I am Managing Director of N-S Export Corporation, a subsidiary of National-Standard Company. National-Standard is one of the largest manufacturers of carbon, alloy and stainless wire and wire products in the United States today.

I am also a member of the Board of Directors of the American Wire Producers Association ("AWPA"), a national trade organization with over 50 active and associate members in the wire industry. Ed McNew of Davis-Walker Corporation is also a member of the AWPA Board of Directors, and I look forward to the day when my good friend Dick Nash of Maryland Specialty Wire will also be numbered among our members.

Mr. Chairman, I am speaking to you today on behalf of both my company—National-Standard—and the American Wire Producers Association on matters of great concern to the future of the wire industry in our country.

The members of the AWPA, including National-Standard, purchase steel wire rod and manufacture wire and wire products. We have plants located over 20 states, and we employ thousands of productive American workers. We manufacture hundreds of different types of steel wire and wire products which are used in every segment of the U.S. economy. Our products range from coat hangers and chain-link fence to precision wire used in automotive brake cables and springs.

We are an important part of the American steel industry. In fact, the independent wire drawers supply about 60 percent of the domestic wire market—far surpassing the integrated steel producers and imports. In 1983, independent wire drawers shipped almost 3.7 million tons of wire and wire products. By comparison, the integrated mills shipped 1.3 million tons, and imports accounted for another 1.6 million.

Nevertheless, our part of the industry tends to be overlooked by the decision-makers here in Washington. In the current section 201 investigation of steel, the International Trade Commission ("ITC") has prepared detailed statistical tables on U.S. shipments, imports, exports and consumption of steel products. In the case of wire and wire products, however, the tables are completely wrong. It appears that the ITC has calculated domestic shipments of wire and wire products on the basis of shipments by the integrated producers alone. The ITC figure for 1983 shipments is only 1.3 million tons. As I have just explained, independent wire drawers shipped 3.7 million tons of these products last year—almost *three times* the tonnage shipped by the integrated producers. It is crucial that our Government understands the primary role we independent producers play in the wire industry, and one of the reasons for my appearance before you today is to invite the Subcommittee's attention to our part of the steel industry.

Mr. Chairman, our Association is opposed to any quotas or other restrictions on the importation of steel wire rod—the basic raw material of our industry. Wire rod is the largest single component in the cost of making wire. To our members the price paid for wire rod is anywhere between 40 and 75 percent of the selling value of the finished wire or wire product. This cost is greater than wages, depreciation, taxes or energy.

As rod prices increase—and they will surely increase dramatically if there are restraints on imported rod—so will the prices of our wire and wire products. We, as an industry, will face decreased margins and reduced volume of sales. We believe that domestic wire drawers are as efficient, or better, than foreign producers. If, however, our raw material costs increase as the result of non-market forces, then we will find ourselves in a position where we can no longer compete with the foreign wire producers.

Quotas will also result in artificial limitations on the availability of rod—both in terms of quality and quantity. I am sure that Ed McNew will explain the particular problems faced in this regard by wire drawers on the West Coast. Our members have different needs in terms of size, quality and other specifications for rod, some of which are not produced domestically in sufficient quantities to meet demand. Import barriers will create further damaging shortages of supply.

Another effect of quotas will be the "downstreaming" of products by foreign producers. Instead of shipping wire rod to the United States, they will ship wire and eventually the finished product itself, whether it is a spring, coat hanger or automotive cable. Our industry will then be hammered by a devastating cost/price squeeze—in which our raw material prices are increasing, while our foreign competitors will be selling finished wire and wire products made from rod obtained at world-market prices.

Mr. Chairman, my company—National-Standard—has already experienced the damage that can be caused by quotas on our raw materials. This damage has occurred in the case of quotas on imported stainless steel wire rods. In 1983 stainless rod prices rose from an average of 75 cents per pound to approximately $1.00 per pound, while finished wire prices held steady at $1.50 per pound. National-Standard Company has experienced shortages of raw materials and disruptions in our stainless steel wire business due to these rod quotas and an ill-fated, unenforced trigger price mechanism (T.P.M.). Our company has painfully restructured its operations over the past four years to achieve lower operating costs and a chance for survival. We must expect continued similar effort by domestic rod suppliers instead of quotas to protect inefficiencies. We believe that the failure by government agencies to enforce current laws designed to prevent unfair trade practices has contributed greatly to steel industry problems.

National-Standard Company endorses the concept that the marketplace, and not government-imposed quotas, should determine the availability of wire rod. Quotas would significantly rearrange the North American market, making it very difficult to exist with our largest trading partner, Canada. Imposition of quotas on carbon steel rod would, in our opinion, create great hardships for our customers, employees and stockholders.

In conclusion, Mr. Chairman, my company joins the AWPA in opposing any artificial barriers to the importation of wire rod. Such measures are only temporary "band-aid" remedies which have not worked in the past. We as an industry are willing to let the market decide and to take our chances in a free enterprise system unencumbered by quotas, restraints or other barriers to trade.

On behalf of National-Standard and the AWPA, I want to thank you for giving me the opportunity to tell you of our industry. I would be pleased to answer any questions which you may have.

Chairman GIBBONS. Now, the West Coast Ad Hoc Steel Producers Committee.

STATEMENT OF ED D. McNEW, VICE PRESIDENT, DAVIS WALKER CORP., ON BEHALF OF WEST COAST AD HOC STEEL PRODUCERS COMMITTEE, ACCOMPANIED BY PETER O. SUCHMAN, COUNSEL

Mr. McNEW. Mr. Chairman, I would like to thank you for the opportunity to testify before this subcommittee concerning the problems faced by steel-consuming industries.

My name is Ed McNew, and I am vice president for purchasing of Davis Walker Corp. I am here today representing the West Coast Ad Hoc Steel Wire Producers Committee, a group of 11 fabricators of wire and wire products located in the Western States.

I am accompanied by Peter O. Suchman of the firm of Sharretts, Paley, Carter & Blauvelt, P.C., who is counsel to this committee.

This subcommittee has recently heard testimony from Ambassador Brock and Secretary Baldrige expressing the opposition of the administration to proposals such as H.R.5081 to legislate import quotas on all steel mill products. One reason they gave for that opposition was the devastating impact such comprehensive import restrictions would have on steel-consuming industries in the United States—industries which use steel as a raw material for the production of finished and semifinished products.

This metal working sector of the U.S. economy employs 20 times more people and accounts for about 10 times the share of GNP as the integrated steel mill sector, yet these interests are often ignored by the Congress and executive branch when actions to address the decline of the integrated steel mill sector are being considered. One such industry is the wire and wire products industry.

Ambassador Brock told you last week that if quotas are legislated, "these producers would clearly be hurt by increased prices for their raw materials and also by increased import competition as foreign producers shift from exporting steel to export products made of steel."

The Ambassador might have had the independent wire drawers in mind when he made that statement. This is especially true with regard to carbon steel wire producers located west of the Rockies.

Carbon steel wire and wire products, such as bright basic wire, galvanized wire, barbed wire, chain link fence, baling wire, poultry and stucco melting nails, are made by drawing carbon steel wire rod into wire. Wire rod comprises 50 to 75 percent of the cost of production of a wire producer. The wire rod industry, like most of the carbon steel industry as a whole, has been undergoing a major adjustment in the past few years, as the inefficient, and largely antiquated integrated producers lose market share to the modern nonintegrated or minimill producers. Wire rod is one of the products which minimills produce most efficiently and as a result of this competition, the domestic integrated producers, such as United States Steel and Bethlehem, are fast disappearing as wire rod producers.

At the end of 1983, United States Steel announced the permanent closing of its remaining wire rod facilities, leaving Bethlehem's Eastern mills at Sparrows Point, MD, and Johnstown, PA, as the only true integrated wire rod facilities left in the United States

This structural shift has left the Western States with almost no wire rod capacity and a demand for about 450,000 tons of wire rod per year. Since the closing of the west coast integrated wire mills in the past few years, the independent wire drawers have turned increasingly to imports from a variety of countries to assure themselves of an adequate supply of wire rods, and to keep down our costs of production so that we can remain competitive with the increasing inflow of finished wire products from offshore wire drawers. We do buy some wire rod from domestic producers outside the region. However, the closest are located in Pueblo, CO, Kansas City, MO, and Beaumont, TX.

There is no way that we on the west coast can become dependent for our raw material on rod producers located at such overland distances, given the cost of transportation in the United States. This is why when the ITC studied this industry last in 1979, it found that for the preceding 6-year period, domestic wire rod produced outside the Western States accounted for only 1.4 percent of Western states consumption, while imports supplied 45 percent. Furthermore, there is inadequate capacity in the United States for wire rod, and especially for wire rod at anything like a price which will allow us to remain competitive with foreign wire drawers. These producers, of course, have access to unlimited amounts of low-priced foreign rod. We estimate this shortfall of average demand for wire products as compared to U.S. rod capacity at between 2 and 2.4 million tons. Either this shortfall enters the United States as wire rod to be converted into wire here, or it enters as finished wire product, also made from foreign rod, but with total value added accomplished abroad.

This problem is particularly severe in the Western States because of the closure of most rod production in the area, and we estimate that the current import to consumption ratio in the Western States for wire and wire products is about 50 percent, or more than double the I/C ratio for the country as a whole.

I want to make this absolutely clear to the subcommittee: The fate of the independent wire industry in the Western States is in the balance. We cannot survive if the present course of events continues.

Our supply of rod has been gradually constricted by the demise of the regional rod industry, the TPM, the U.S./EC arrangement, the Japanese self-restraint program, the massive number of so-called "unfair trade cases" brought against foreign rod suppliers, and now the threat of global rod quotas through legislative, or administrative action.

If things continue in this direction, we will be forced to close or sharply curtail our operations and buy or manufacture wire outside the United States. If this happens, the domestic wire rod industry also loses because it has no customers.

Furthermore, we reject the imposition of quotas on wire and wire products along with wire rod, as a solution to whatever problems the wire rod industry faces, although obviously if imports of rod are restrained, wire imports must also be restrained. We do not believe that a closed, bureaucratically managed market is the way for our industry to prosper, and I frankly don't understand how steel industry leaders can be so naive as to think they can get the Government to limit their import competition and refrain from interference in other aspects of the management of their companies. In addition, closed markets mean higher prices, which mean decreased demand, substitution of other products for wire, and an inefficient industry.

We are also wary of what has been called the "dual distribution" problem. Most wire rod producers are also producers of wire products. Over the years, we independent wire drawers have gradually increased our market share at the expense of the integrated wire rod/wire producers. If our access to foreign rod is further restricted, we will become ever more dependent upon our competitors for our raw material—an unhealthy situation at best.

The ITC recognized this problem in its 1979 study of the Western wire rod market, stating:

> There have been instances in which the domestic supply of wire rods . . . has been less than adequate to meet demand. This was the result, in part, of vertically integrated U.S. producers insuring that their own requirements for primary products were met before making these products available to other consumers. Customers who normally receive their supplies from these firms were unable to obtain them from other domestic sources because, for the most part, only vertically integrated firms produce these products.

Mr. Chairman, as demand has increased for wire rod over the past year, west coast wire producers have been unceremoniously cut off with little notice by domestic rod producers who suddenly discovered other uses for their product. We see this as a portent of things to come as rod supply is ever more incapable of meeting demand, especially in the Western States, and producers lose interest in wire drawers 1,200 to 1,700 miles away.

As you know, Mr. Chairman, we believe the ITC should update this 1979 study. We know they would find that the situation in the Western States wire rod market has deteriorated sharply since that time with the closing of most west coast rod facilities. Unfortunately, the Commission's present press of business has not permitted them to undertake this task, at least not in time for the debate that is now going on over whether the domestic steel industry—including the carbon steel wire rod industry—should receive additional import protection.

I would like to make it clear that the independent wire drawers are good customers of the domestic wire rod industry. My own company has facilities throughout the gulf coast and Southeast, and we supply those facilities 100 percent with domestically produced wire rod which is competitive and available in that part of the country. This is not the case on the west coast where imports have for many years been a significant part of the available wire rod supply, and where structural changes in the industry have made them ever more important.

We do not think the domestic wire rod industry is in need of or deserving of import quota relief. The modern minimill sector of the industry is among the most efficient in the world and is well able to compete on an equal footing with any foreign rod mill. The antiquated integrated sector, which now accounts for only about one-quarter of the industry's capacity and for less of its production, has slowly been forced out of the marketplace by its more efficient domestic competition. The long-term trend in wire rod imports has been down while minimills increase their market share.

This industry has all but adjusted to technological change. If Congress provides the industry with quota protection now, it would simply provide the minimills with windfall profits, for a time, stimulate the reentry into the market of closed, inefficient facilities, and delay the elimination of still operating noncompetitive producers. The modern, efficient independent wire producers would have to pay the cost of this protection, especially on the west coast, where wire imports can be expected to soar, or in the alternative, where wire will price itself out of the market. Either way, the economy of the United States and the Western States suffer as inefficiency is rewarded and costs are artificially inflated.

I thought it was interesting that in today's Metal Market, there was an article that states that the import shield on steel is seen costing $768 million a year. This was something that the Federal Trade Commission has estimated.

Chairman Gibbons. About this bill?

Mr. McNew. I am sure between the 201—any quota restrictions along the lines that are being talked about. It would cost over $700 million.

Chairman Gibbons. That is how much again?

Mr. McNew. $768 million a year.

Furthermore, additional relief ought not to be granted, outside the legal structure that has been established for providing such relief, to the inefficient segments of this industry which have failed to modernize plant and equipment such as through adoption of BOF and concast technology and to hold down labor costs. From the late 1960's to the present day, through VRA's, the TPM and various gentlemen's agreements, the domestic steel industry has been shielded from unfettered international competition. Providing the weak sisters of the industry more protection will simply encourage them to continue in their old profligate ways.

In the earlier panel, there was much discussion about semis. I would like to mention that due to the restrictions in place and with the changing situation in our industry, we, too, must look at perhaps putting in a rod rolling mill. In order to start this up, we would have to depend on imported slab, or imported billets as there are no billets available on the west coast and the overland cost of freight from the East is anywhere from $50 to $100 depending on the location. It just would not make sense to restrict semis that create jobs in this country.

We do not understand how the interests of all of the industries using steel mill products, such as the wire industry, can be so casually ignored in the debate over the restructuring of the U.S. steel industry. We are a far larger and more vital sector of the economy and yet because we have not mobilized ourselves as efficiently as the big steel mills, our interests are continually overlooked. The same is apparently true for the Western region, which, as a geographically isolated, steel deficit area, is heavily dependent upon imports of steel mill products to support a whole range of manufacturing activities.

Hopefully, it is not too late for us to bring this situation to the attention of this subcommittee and others within the Congress and executive branch who will be deciding whether to impose quotas on wire rod and other steel products.

Please do not make us close our modern and efficient plant in Los Angeles so that some antiquated mill in another part of the country can be reopened for a few more years. In the long run, that scenario is not in anyone's best interest; it certainly isn't in the national interest.

Thank you very much.

Chairman Gibbons. Well, thank you.

Before we go on to the next witness, I want to suggest that while I have not analyzed the list of cosponsors of this bill, I imagine a good portion are from the west coast area.

I think everything that you can do to let those people know what the impact will be upon you would be most helpful in this consideration, because I think some of them have sort of a knee-jerk reaction about these matters. They want a healthy steel industry in their part of the world and they think this is the way to go at it.

I hope you all will explain to them that——

Mr. McNew. We certainly will.

Chairman Gibbons [continuing]. That they will be penalizing themselves, not helping themselves.

Mr. McNew. They seem to ignore the fact that with the downstreaming they will have no customers to sell their products to.

Chairman Gibbons. That is very interesting.

Now the Maryland Specialty Wire, Inc., Mr. Nash.

STATEMENT OF RICHARD NASH, JR., PRESIDENT, MARYLAND SPECIALTY WIRE, INC.

Mr. Nash. Mr. Chairman, I appreciate this opportunity to present my views to this subcommittee concerning the problems of the U.S. steel industry.

I hope my comments will help add a valuable perspective to your search for an appropriate legislative approach to some of the industry's problems.

My name is Richard Nash. I am president of Maryland Specialty Wire, Inc. We are located in Cockeysville, MD, just north of the city of Baltimore.

Our company is one of 10 independent specialty wire redrawers in the United States. We redrawers purchase our raw material, hot rolled rod, in many grades of stainless steel from integrated mills both domestic and offshore. We sell our products, fine diameter stainless wire, to customers who fabricate it into such products as cable, cloth, springs, and mesh for use in the medical, chemical, aircraft, automotive, petroleum, communication, data processing, military, and consumer markets.

I am here today to share with you some of my firsthand experience——

Chairman Gibbons. Don't pay any attention to those bells. They will drive you crazy.

Mr. Nash [continuing]. Share my firsthand experience with respect to quotas. I cannot say whether or not quotas will help the steel industry but I can say that quotas that are applied without regard to the downstreaming effect cause at least as many problems as they solve.

As a result of quotas imposed on stainless steel rod, our raw material, to assist the integrated domestic specialty mills, we, the independent redrawers of the United States, have been caught in a classic squeeze. The cost of our raw material has soared up to 30 percent in 1 year. With restricted supply due to inadequate quotas, our domestic suppliers raise prices on rod and our offshore sources follow it closely to obtain the most value for the limited quantity they can sell.

Leadtimes from domestic mills have gone from 2 to 6 months and 1 mill out of 3 has put us on allocation.

While imported rod has been held up on the docks, no way of knowing how much will clear the quota, deliveries of domestic rod have become more unreliable.

As the domestic mills filled up, their capacities became strained and the quality of at least one mill's rod has dropped noticeably, apparently unable to keep up with demand.

Due to the structure of the quota, there has been no way to shift orders around to assure continuity of product from approved sources offshore.

So much for the problem to the redrawers such as our company with respect to the disrupted supplies and dramatically increased costs. What about the effect on our markets?

The answer is very predictable: Increased competition at relatively depressed prices. The domestic integrated mills have raised their wire prices less than they did rod. The offshore integrated mills are shipping in more wire to offset reduction in rod shipments due to the quota. The offshore independent redrawers able to purchase low-cost offshore rod and convert it into wire are taking advantage of their competitive situation and penetrating deeper into the U.S. wire market.

As a direct result of a misstructured, selective quota placed on stainless steel rod, the redrawer segment of the industry has suffered higher costs, interrupted supplies, decreased reliability of their raw material, and dramatically increased competition at reduced prices in its marketplace.

The stainless redrawer segment of the steel industry is efficient and highly competitive within itself. Capital investment is constantly being made to keep up with the state of the art and there is no doubt in my mind that we can compete not only with each other but internationally on a profitable basis.

We are faced with these abnormal distortions of a Band-Aid approach where one segment of the industry gains at the expense of another—a victim of downstreaming.

What I am suggesting to resolve these problems that my company and others in our particular sector face is if quotas are the answer to the steel industry or specialty steel industry's problems, let's be sure they are so structured that the downstreaming segments of the industry are not adversely affected.

Quotas on rod must be accompanied by similar quotas for rod and fabricated wire products to prevent the type of injury we are now suffering from a noncomprehensive approach.

Furthermore, quotas on stainless wire if applied should be structured to prevent shifts of imports from one market area to another so both the integrated and the redrawer sectors of the industry are equally protected.

Before I close, let me remind you that the stainless steel wire industry is still supposed to be protected against dumped imports by a trigger price mechanism. I use the word "supposed" advisedly because only a limited product sector seems to be protected.

Trigger prices for fine stainless steel wire have declined over the years. Loopholes remained open and many schemes have proven effective in bypassing the system. Even though goods continue to come into this country below trigger price, there has not been one self-initiated investigation by Commerce.

In short, trigger-price mechanism is a flop.

In conclusion, the stainless steel wire industry has been and is still being hurt by dumped or subsidized imports. But even worse damage has been inflicted by a defective rod quota imposed by our own Government.

I thank you for your attention and I wish to express my appreciation for your efforts to develop a comprehensive and equitable approach to our industry's trade problems.

Chairman GIBBONS. Well, thank you, sir.

[The prepared statement follows:]

STATEMENT OF RICHARD NASH, JR., MARYLAND SPECIALTY WIRE, INC., COCKEYSVILLE, MD

Mr. Chairman, I appreciate this opportunity to discuss the problems of the United States steel industry with the Subcommittee.

My name is Richard Nash. I am the President of Maryland Specialty Wire, Inc., an independent stainless steel wire redrawer. I am a member of the domestic steel industry and I am opposed to quotas which help only one segment of the steel industry but which permit downstream dumping and market distortions to damage other segments of the industry. Until our raw material (stainless steel wire rod) was subjected to quotas in July, 1983, redrawers were among the few success stories in the entire steel industry. Healthy competition within my sector of the industry insured the operation of modern, highly efficient, highly productive plants by my company and other domestic redrawers. We had to be competitive. Redrawers are relatively small, independent companies. We must compete with large-scale domestic and foreign "integrated" producers, which produce rod and redraw it themselves. We must also compete with offshore wire redrawers. In order to preserve our profitability and independence, we have constantly modernized and upgraded our operations. Until the imposition of quotas, we could produce higher quality, lower priced wire than our foreign competitors, and still show a profit. With the imposition of quotas, however, we have suffered economic harm that should never have occurred.

Maryland Specialty and other independent redrawers convert stainless steel wire rod into stainless steel wire. Stainless steel wire rod, our raw material, is purchased in large coils. Our workers draw this rod through a series of dyes to meet very exacting specifications. The resulting product has innumerable economic functions.

The wire redrawers' traditional profitability and competitiveness have been eroded by the imposition of quotas on rod, which have had the intended result of reducing supplies of foreign rod. However, the quotas have had the unintended result of injuring the domestic wire redrawing industry. In theory, the quotas were intended to help the American steel industry. In practice, they have inflicted severe hardship on our section of that industry. A review of some of the negative effects of the quotas shows how this occurred.

Once the quotas were in place, domestic rod manufacturers raised their prices by up to 30%. This could be done because the supply of foreign rod set by the quotas was far too low to meet the needs of the independent wire redrawers. Once foreign competition was effectively stifled, the domestic rod manufacturers could charge whatever they pleased. To make matters worse, the domestic manufacturers were unable to fill the gap in supply caused by the quotas. Domestic manufacturers produce only a limited number of rod types. Some of the rod types we use are simply not available in the necessary amounts. As a result, domestic rod manufacturers have raised prices. One manufacturer has also placed independent redrawing firms on allocation—a form of domestic quota. This means that our industry does not have access to raw material supplies from domestic rod manufacturers at any price. There are long lead times between the placement of orders with domestic manufacturers and the eventual delivery of rod to us. Finally, much of the wire rod that is available fails to meet our quality standards. Because of the quotas, however, we must either take it or leave it.

Of course, the quotas have also caused the prices of imported rod to rise. Since the amounts of rod that can be imported is artificially limited, imports naturally tend to be concentrated in the upper end of the quality and price range. The quotas do not distinguish between varieties of stainless steel wire rod. Therefore, more expensive types of rod are being imported to the exclusion of the less expensive varieties that our industry needs.

However, the harmful effects of the present quota system do not stop there. Since the quotas apply only to raw material—rod—but do not apply to the finished product—wire—foreign suppliers have greatly increased their shipments of low priced stainless steel round wire into the United States. The price of rod has increased far more than the price of wire, so that the price difference between raw material and finished product has narrowed dramatically.

Independent wire redrawers cannot hope to compete with foreign wire which is being dumped on the American market. This dumping has not been prevented by the trigger price mechanism. Although the trigger price mechanism is still in effect for round wire products, it is not being effectively enforced. In fact, the trigger price mechanism is worse than useless. It is not preventing foreign wire from being sold at artificially low prices in the United States. Nonetheless, government officials have taken the position that if the trigger price mechanism is in effect, undetected dumping cannot occur. We are in a Catch-22 situation that is threatening to ruin a once profitable segment of the steel industry.

My point is that the present quotas have not solved problems, but have merely shifted problems from one section of the industry to another. Redrawers have been forced to bear the burden of the domestic wire rod producers' problems.

If quotas are to be imposed, they must provide protection equitably to all sections of the domestic industry. Quotas on rod have led to greatly increased imports of low-priced wire. Stop-gap quotas, like those now in place, merely shift problems and cause market distortions. In conclusion, Mr. Chairman, if we must have quotas, they should be designed to prevent downstream dumping. One segment of the steel industry should not be protected at the expense of another.

Chairman GIBBONS. I hope some of these industrial policy hotshots that we have floating around will get their hands on this testimony and will read it. You brought out a number of new things here, as I see it.

I assume your industry is very small in Maryland compared to Sparrows Point and all those others, and you probably get overlooked in the rush, but——

Mr. NASH. We frequently do, yes.

Chairman GIBBONS. What is the size of your industry in Maryland?

Mr. NASH. I don't think we really know. We are so competitive that our industry group doesn't have any figures on how many people are in it.

I would have to estimate, from my experience, somewhere around 1,500 people. Our own company employs around 250 people. So we are very small and very competitive.

There are a lot of entrepreneurs in this segment of the business. It is not heavily capitalized. To put things into perspective, our rod costs, raw material costs run about 3½ to 4 times our labor costs, which are the next highest item.

So again, we are caught in that classic squeeze of having our raw material restrained and really the products that we sell, the doors are open for foreign competition to come into that marketplace.

Chairman GIBBONS. That is just because of the quotas on specialty steel?

Mr. NASH. That has helped push it. We always have had to fight dumping in our industry. Our particular end of the industry, the redrawers, are in fine wire, and customs defines this as 0.60 and below. So we will take that.

We are penetrated approximately 36 percent by foreign competition. The heavier end of the wire business, specialty wire business, which is normally the place of the integrated mills, are only about 8 percent penetrated.

Chairman GIBBONS. I see. What is so unique about the California or the western market that leads to so much trouble in all of this?

Mr. MCNEW. Mr. Chairman, we think what is unique is we have no rod supply on the west coast. There is one small mill that is a combination mill; they are producing about 20,000 tons only. The needs are 450,000 tons.

The next closest mill is in Pueblo, CO. They produce about 100,000 tons of their own consumption, almost none available to the trade.

Our west coast market depends upon imported raw material. There is not enough made in the United States. We cannot afford to buy from back east even if it is available, and pay the freight and then compete with imported wire products.

Imported wire products on the west coast represent 50 percent of the wire and wire products market. Of course, nationally, only 23 percent is the figure.

Our survival is predicated upon having access to wire rods that are freely and fairly traded.

Chairman GIBBONS. This bill that we have under consideration here, if it has to be moved, how could it be restructured in order to fairly take into consideration the types of problems that you bring out for the west coast market?

Mr. MCNEW. I am not sure that any quota bill can be restructured in such a way to solve the problem. I would offer this, that if you are going to have quotas have quotas on finished products, not on the raw material. If there was a quota on the finished product then wire drawers like ourselves would have a chance at a larger part of the market and then we in turn could buy more of the raw material in the States.

Chairman GIBBONS. How far down the finished market would you go? That would always be a problem.

Mr. MCNEW. That is right. I just don't see how—you know, you have automobiles and you could see a temporary shock to the automobile industry there. You can take it to the extreme. I don't think it would work.

Chairman GIBBONS. We saw with regard to the automobile industry that it apparently helped managers' salaries, and perhaps it is going to help the workers' salaries, temporarily anyway. It sure didn't help the consumer any.

I just don't know where we would draw the line if we had to go to finished products.

Mr. MCNEW. We would agree with you. We feel the best thing is no quotas. We are prepared to compete in the world market and as long as we can have access to the same supplies that our foreign competitors have we feel we are very efficient and can do the work.

We have in many factories one man running three wire drawer machines whereas in many cases other competitors will have one man on one machine or perhaps one man on two machines.

Chairman GIBBONS. Let me ask you, if you had to analyze our current unfair trade practice remedies procedures, what would be your major complaint in this area, in the area of dumping and subsidized trade?

Mr. MCNEW. Well, I feel if we looked at an historic review we would see that when complaints were brought by the wire industry, we did not fare too well. Our industry is very fragmented, very segmented, and it is very hard for us to collect data and perhaps to prove our case as well as the wire rod manufacturers who have only one TSUS item to identify.

Chairman GIBBONS. Yes.

Mr. MCNEW. It is easy and they have been very successful.

We have not received that kind of treatment. I would like to say that——

Chairman GIBBONS. That is interesting.

Mr. MCNEW. The way things are going we are going to be forced to bring more antidumping cases and unfortunately I have a feeling we are going to spend a lot of money and perhaps not receive the results that our suppliers of wire rod have received.

Chairman GIBBONS. That is because, as you get into the more finished products, there are more and more categories that these items come in under and, therefore, there are not the same sort of dramatic figures that you would get where you just look at rod.

Mr. MCNEW. That is right. It is hard to collect the data. Perhaps a little more difficult to show injury to an industry when it is isolated in one area, but there are hundreds and hundreds of wire products but where there is just one item, the wire rod.

Chairman GIBBONS. Yes, that is right.

[The following was subsequently received for the record:]

ADDITIONAL RESPONSE TO CHAIRMAN GIBBONS

Chairman Gibbons asked Mr. McNew what his major complaint in the area of unfair trade practice remedies procedures would be. In addition to the difficulties explained by Mr. McNew in obtaining relief for finished wire products, because of the large number and diversity of products which are or can be imported, we believe that the material injury standard in the antidumping and countervailing duty statutes (19 U.S.C. 1677) is seriously deficient in two respects:

1. There is no provision for giving weight to the adverse effects of granting relief on other U.S. industries, and the economy as a whole.
2. The ITC ought to be specifically directed to exclude from consideration of material injury imports into geographic regions without sufficient domestic production of the imported products, where transportation costs make non-regional domestic producers uncompetitive.

Chairman GIBBONS. In the specialty area, Mr. Nash, as I remember we have had quotas on and off in that industry for some time, in the specialty steel area. Has the most recent one been more severe than the others?

Mr. NASH. Mr. Chairman, yes. The quota started last July, the most recent one.

Chairman GIBBONS. All the advertisements they kept running in the newspaper here about how they had been so unfairly treated, to domestic industry, and——

Mr. NASH. The domestic industry integrated mills have a definite problem and we recognize that. We purchase as much as we can domestically. The quotas that started in July open every quarter and I think the quota opening in July lasted for 2 weeks. In 3 months time the quota opened and closed the same day and all the material that was waiting on the docks got in and it got in the same day.

The next quota opening was in January and 40 percent of what was waiting on the docks got in and the quota that just opened in April, 50 percent of what was on the docks got in.

We have no way of knowing what country—and the EEC supplies most of our imported rod—they are all basketed together. We have no idea of knowing what country is going to get what percentage in. Therefore, our sources are completely unreliable and we have to build up inventories which are costly to take care of this unreliability.

Chairman GIBBONS. All of which adds to the cost, all of which adds to the lack of competitiveness in other normally worthwhile areas in which we could be competitive, is that correct, sir?

Mr. NASH. Correct.

Chairman GIBBONS. Sounds like an excellent prescription for inflation.

Mr. NASH. Well, it is indeed but we are not passing it along.

Our raw material costs as I said have gone up 30 percent and our selling prices in that same period have gone up 5 percent.

Chairman GIBBONS. Eventually you will have to pass it on or go out of business, aren't you?

Mr. NASH. That is correct, or move our business elsewhere where we can compete.

Chairman GIBBONS. And ship in semifinished and finished material?

Mr. NASH. Correct.

Chairman GIBBONS. I thank you all for coming and helping us with this problem. Hopefully we will be able to do something with it. Thank you very much.

Mr. NASH. Thank you.

Mr. MCNEW. Thank you, Mr. Chairman.

Chairman GIBBONS. We now have the West Coast Fabricators & Steel Industry Association, Joseph Lang, government affairs representative, and Stephen Schwartz, vice president, Palm Iron & Bridge Works.

All right, Mr. Lang, I think we have you listed first. I don't know what is the pecking order but you go right ahead.

STATEMENT OF JOSEPH L. LANG, GOVERNMENT AFFAIRS REPRESENTATIVE, WEST COAST FABRICATORS & STEEL INDUSTRY ASSOCIATION, AND STEPHEN SCHWARTZ, VICE PRESIDENT AND GENERAL MANAGER, PALM IRON & BRIDGE WORKS, SACRAMENTO, CA

Mr. LANG. Good afternoon, Mr. Chairman, and thank you for the opportunity to speak before the committee today regarding the structural steel fabrication industry on the west coast. I am Joseph Lang, I am the government affairs representative for the association. With me today is Stephen Schwartz, the vice president and general manager of the Palm Iron & Bridge Works in Sacramento, a structural steel fabricator on the west coast. Today we would like first to discuss the nature of the steel fabrication industries on the west coast giving the background of its development over the last two decades, and then discuss the current trends in the industry and concerns over recent increases in imports of fabricated structural steel.

Today the structural steel fabrication industry on the west coast consists of approximately 12 large and 50 smaller companies located primarily in the States of California, Nevada, and Oregon. Our business is fabricating raw steel beams and shapes, through cutting, welding, punching, drilling, et cetera, for use in construction projects in the Western region of the United States. Our fabricated steel products are used mainly in office and commercial buildings, with some high-rise residential construction, as well.

Table 2 included at the back of our testimony indicates the size of the industry on the west coast. In 1983, contracts were awarded for over 300,000 tons of fabricated structural steel for use in office and commercial building construction. This represents total revenues or value for the industry of approximately $240 million. This figure for 1983 is somewhat lower than those of 1982 and 1981, but still represents a substantial industry in our region, employing over 6,000 persons.

The raw structural beams and shapes used for fabrication by our industry come from both domestic and foreign, primarily Japanese and European, sources, though supplies of foreign raw steel have been used more and more during the last 10 years. In fact, raw steel supplied by foreign mills accounts for as much as 75 percent of the steel used in fabrication by some companies on the west coast.

The reasons for this reliance on foreign imports of raw steel and expansion in number of fabrication companies on the west coast are several.

Mr. Schwartz would like to get to the reasons for that.

Mr. SCHWARTZ. Again, Mr. Chairman, I thank you for the opportunity to sit before you and talk about what our problems are and what we perceive them as.

The situation with the fabricators on the west coast and really the fabricators in the entire United States is that the fabricators are primarily smaller independently owned generally by conglomerates. We have recently been disorganized throughout our history, basically family owned businesses getting along with the business of running their companies.

Prior to the 1960's, or the mid 1960's and before, our industry was pretty much governed by the domestic steel producers, primarily Bethlehem Steel and United States Steel and a couple smaller rolling mills, who basically governed the supply and structural steel in this country. Along with that was a rather strict policy on pricing on delivery of this material.

The fabricator was at the mercy of the domestic mill. It was not a terrible circumstance. It was a workable situation, something that was a fact of life for the fabricator and something you learn to deal with. It was not a disaster. Price was determined at the time of delivery not at the time of order, forcing the fabricator to take the risk of when it was priced.

The deliveries of the material were specified but not necessarily guaranteed. We had to basically take what we got. In some cases it worked very well, in some cases it didn't but it was basically the fabricator's problem, not the problem of the mill.

In addition, the mills had as part of their organization, at least the major mills, they had a fabricating arm. United States Steel had American Bridge Division; Bethlehem Steel had Bethlehem Fabrication Division. These were probably the two biggest fabricators in the country. Their presence was well felt on the west coast. Their market was basically all the major structures on the west coast of the United States.

From our perception and from our conjecture it was our assumption that these fabricators and erectors in the form of Bethlehem and American Bridge had both delivery and potential pricing advantages from their parent mills. I don't know if I can say that for certain because I was not privy to the books but the assumption was that they were allowed a different pricing structure on the material than the rest of the fabricators.

We think that gave them a competitive edge and basically they had for all practical purposes the entire market on the west coast.

It is difficult for the smaller and medium sized fabricators to break into that and basically the smaller fabricators went after the pickings of what is left. Again not an unworkable situation but it was a fact of life.

In the mid to late sixties, it started to changing a little bit. A couple of the fabricators, a little larger in size but much smaller than the ranking fabricators on the west coast, decided to take on the big ones on the major structural projects, and they did it with a combination of lower overheads, potentially some advantages in their union or labor contracts, and probably the biggest single item is employment of a portion or all of the steel-beam import in nature. At that time, in the mid to late sixties, import steel, either from Japan or Britain, was still not widely accepted in either quality or ability to deliver.

Building departments were unsure, fabricators were unsure whether they would see it, and it was a risk. A couple of the fabricators took that risk, and went after it, and found they could be not only competitive but profitable at the same time against domestic mills and their fabricators.

This activity and this availability of import steel is available only to a few fabricators and really employed by a few, but what happened, these few fabricators took over a reasonable share of the west coast market from the domestic mills, and from the domestic fabricators.

What happened, then, again in the late sixties to early seventies, the large fabricators, owned by the domestic mills, started losing their share of the market. Other fabricators started jumping in. The import steel was becoming more readily available.

Other fabricators in the State said basically: "Well, if we are going to compete, we have no choice but to either have a certain complement or a certain portion of our steel being import or we are just not going to win any contractors. We are competing against major fabricators who had pricing advantages from the mill, and we are dealing with fabricators who are using import steel."

Basically, our business was either we would go back and do little, tiny jobs or work on those projects that are buy-Americans, or we don't do any work. On the west coast, unfortunately, the buy-American projects then, as they are now, were heavily influenced by fabricators to the East, and the Southwest, and the Midwest. They did, and still do, enjoy advantages over the west coast fabricators as far as ability to acquire and distribute domestic steel into the west coast.

The fabricators on the west coast had no market except their own area. The fabricators in the East go West, the fabricators in the Midwest, due to some potentially lower labor rates, can either go East or West. We west coast fabricators were stuck where we were.

The market started changing a little bit, and more people started moving into a bit of import steel. Apparently in the early seventies we had a rather substantial boom in the construction industry, and steel became a rather scarce item. We had what we call a steel shortage. Steel became very dear. It was hard to get.

Those fabricators that had special deals with import mills or a good buying history with the domestic mills could acquire steel and could use it and could sell it. Some other fabricators that had no particular buying history or had no other sources of steel either lost their businesses or they disposed of them or they sold them to larger fabricators. There was some shuffling.

Chairman GIBBONS. Basically when was that?

Mr. SCHWARTZ. I would say 1970, 1971, 1972. Some of the fabricators that could acquire steel made a lot of money. The fabricators that couldn't acquire steel sort of lost everything. One of the biggest fabricators currently in California went through a transition of being forced to sell out his business, because he had no access to steel. He sold out to the largest fabricator in the State and since went back and formed a new one and now he is the second largest fabricator in the State again, but he was forced out of business.

He is a typical fabricator who buys virtually 100-percent import steel now—sort of bad feelings. The rest of the fabricators or a substantial number made out and survived. A lot of the companies are from 10 to 100 years old. My own company is 98 years old and pushing on 100, and survived basically everything. The last few years we have been surviving on retained earnings rather than profits or revenues from current work.

In any event, the move into the midseventies, a lot more fabricators started relying heavily on import steel. The import steel as far as quality, and timeliness, and delivery was finally accepted. The domestic mills still provided a substantial amount, and they still do provide a substantial amount of material for the fabricators, but more and more are relying on their competitive situation to use import steel, mainly from Japan and Great Britain.

At the same time, the large fabricators, owned by the mills, were basically phasing out their business. The competition from these, I guess I don't know if I would call them sleeker fabricators but sort of lower overhead fabricators, employing import steel, basically pushed the domestic mill fabricators out of business, or certainly slowed down their business on the west coast.

This situation kept growing in the late seventies. Several other mills internationally moved into the States, one being Arbed out of Luxembourg, who became competitors of the Japanese and the

British, essentially opening up a large market to the west coast, and the west coast has come to rely on.

At the same time the domestic mills tried to pursue the work, and to their credit, they started easing up on some of what we call their book prices, by looking at discounts to try to compete. They started looking at the potentials of guaranteeing prices at the time of order and not putting all the risks on top of the fabricators. Their guarantees on deliveries still not absolutely guaranteed were a little better.

It seemed they were trying a little harder. At the same time the importers were going one step further in the situation; they were helping some of the fabricators finance their purchases of steel, which was something new. The interest rates were sometimes high, at least market or prime plus a few points, but to a fabricator, moving into a market or moving into bigger work, buying structural steel is quite an expensive proposition.

Sometimes the owner or the general contractor we are dealing with delays his payments quite some time, so we become bankers. A lot of us would not have survived had it not been for the financing that the import mills essentially did for us, allowing us to wait until we got paid by our customer before we paid them. That was unheard of and is basically still unheard of with the domestic mills.

Chairman GIBBONS. Are there more independent fabricators on the west coast than on the east coast, as a percent of the industry?

Mr. SCHWARTZ. I would say on the west coast, all of the fabricators are independent.

Chairman GIBBONS. All of them?

Mr. SCHWARTZ. A couple of them in the last year or so have moved into the Midwest and have acquired some fabricators, but basically there is one on the west coast that is a national organization, Pittsburgh-Des Moines Steel Co. Primarily the rest of the fabricators are all single units. In the Southwest and Southeast——

Chairman GIBBONS. Why is that so? What makes the west coast unique and have so many independents versus not as many independents in the East?

Mr. SCHWARTZ. I am not sure. I am not sure if the history of the fabrication industry in the Southeast or the Southwest might have been that their business may have been worse. I know in the Northeast there have been more company or fabricator failures than on the west coast. The west coast over the last 20 years has probably been better business than in the East or in the Southeast. Down in the Southwest it has been very good business.

It's my understanding that several of the fabricators in the Southwest have bought fabricators in the East and the Southeast. Some of the ones that have done well have gone and bought others and so now own several. There has been very little buying of anybody on the west coast, basically because the west coast fabricators have done historically reasonably well, and really have had no desire to be bought out.

It is like any other industry; keeping a business in the family from generation to generation is difficult and sometimes rare. It may just be luck. Why the region would have a special significance or situation, I am not sure I could answer that. In any event, moving into the early or late seventies and early 1980's, the domestic fabrication, the domestic mills owned fabricators that basically had been phased out of business except for a few specialty items and primarily all of the major structural steel work on major commercial and office-building construction, was done by west coast fabricators using a combination of domestic and import steel. Some of the fabricators used primarily import steel. Others say, like myself, maybe 60-percent import and 40-percent domestic.

Chairman GIBBONS. Let's talk about the Korean fabricators a second. Is there a problem out there with competition from Korean fabricators?

Mr. SCHWARTZ. They have become so now, yes. We had a couple of particularly bad years in 1981 and 1982 with the tail end of the recession in which hit California rather hard. The product in our market was drastically diminished. We started recovering from it in late 1982 and, hopefully in 1983, the market recovered but at the same time overnight the Koreans moved in with the fabricated product and started selling it through brokers on the open market in California, took approximately 25 percent of our market, virtually overnight.

The 300,000 tons that were sold, I believe it was the year 1983, 75,000 of that being sold offshore to the Koreans—that is a significant amount—obviously terminated whatever recovery California or the west coast was hoping for in 1983. What has also happened is that besides the contracts that have been taken or one by offshore imports, mainly the Koreans, the market has been substantially depressed. Those jobs that they haven't taken they have bid, substantially reduced the prices, if the California fabricators wanted them they had to go and meet them.

It was pretty well accepted and it was proved out it is going to be a difficult situation dealing with a product as complicated as a fabricated steel brought in from Korea, but the dollars were so significant the owners had no choice virtually but to go with them. Some of them are sorry that they did, but in any event it has taken a tremendous share of the market, prevented us from recovering our costs basically, and getting back into what we consider a profitable or a break-even situation.

Chairman GIBBONS. Let me ask you about the Korean fabricators. Do they appear to be engaged in any kind of unfair trade practices, either dumping or subsidized practice?

Mr. SCHWARTZ. To our knowledge, a major factor that makes them so competitive is the labor rate of about maybe 20 percent or 15 percent of what ours would be on the west coast.

Second, it was our understanding that the Koreans were able to buy structural steel on world market prices which are substantially less than are available to fabricators on the west coast. The raw materials for the Koreans came from the Japanese. It was our understanding the Japanese were selling to the Koreans for a lot less than they were selling to on the west coast.

Now, to that extent it might have been essentially a dumping situation, the Japanese avoiding restrictions on trade with the United States, by sending——

Chairman GIBBONS. The trigger-price mechanism, they were avoiding that by selling the steel to Korea, and Korea was then fabricating it?

Mr. SCHWARTZ. Essentially. The trigger-price mechanism left, I believe it became inoperative in 1981. It wouldn't be quite so effective. I think basically with informal agreements, the Japanese were selling at or near a certain price to the United States, but still substantially less elsewhere in the world. The United States is still the highest priced market for all the world suppliers, I believe, through artificial restrictions or agreements, but in any event it gave them a dual advantage.

In California, we sought legislation to equalize this by placing a tariff on the imports to try to equalize the difference in the steel prices that Koreans were paying. There was nothing we could do at the time to offset the labor rates. We are apparently unsuccessful in convincing our union labor to work for $2 an hour in California.

Chairman GIBBONS. Let me ask you what impact would be passing H.R. 5081, the steel import quota bill, have upon you as an employer out there?

Mr. SCHWARTZ. First of all, since this bill has nothing in it restricting the import of structural fabricated steel into the country or the west coast, our fear is that if the quota was enacted it would basically give importers such as the Japanese, the Koreans—any new basically Third World country other than the Japanese of course, could pay low wages and produce a rather low-priced product. They would be unbounded or unfettered. We would have no way of competing with them.

Second, it would be an ideal situation to allow the foreign producers to circumvent the quota by shipping steel into a country such as Korea and selling it as a fabricated product rather than a raw material.

Chairman GIBBONS. A fabricated product can be simply punching a couple of holes in something?

Mr. SCHWARTZ. That is true. Historically that has been the case, and even when the trigger price was in effect, there was still import fabrication that was not covered by the trigger mechanism, but it wasn't to such an extent it was devastating. On the west it was a little more substantial, because the Japanese are rather close to the west coast, but it has been something that has been felt throughout the country.

In talking with our colleagues, friends and competitors in the Northeast, they have had rather substantial competition from the Canadians. It is a situation that exists. It is something that currently it is extremely unworkable with the improter fabrication. It is not necessarily a disaster with the current voluntary quotas that have been put on or have been enacted with some of the importers.

The fear is that the quota would substantially further decrease the import material that is available to us, terminate our ability to both compete at home against the outside fabricators and also the potential is real to take away our potential to fabricate our product and ship it overseas. And we did have in California a reasonable business fabricating material and shipping it to foreign countries, and we were successful.

The work was reasonably profitable, and we think we still have in this country the finest fabricated product, and the foreign countries are aware of that, and they seek out, they are willing to pay a few dollars more, but they can't pay something that is ridiculous.

Our inability to acquire lower priced imported steel makes it impossible for us to compete overseas. We still feel that there is a balance needed. That the domestic mills can't survive being totally without say unprotected, but letting the whole world loose on them.

Obviously they can't survive, and our feeling is, and it still is for our business right now, that the foreign imports take a while to get here. The domestic still has a reasonably timely delivery. We rely on both. We have to keep the balance, and basically that is what we are here for and are hoping to get across.

Chairman GIBBONS. I thank you. I think you have gotten it across.

[The prepared statement follows:]

STATEMENT OF STEPHEN SCHWARTZ AND JOSEPH LANG, REPRESENTING THE WEST COAST FABRICATORS & STEEL INDUSTRY ASSOCIATION

Good afternoon and thank you for the opportunity to speak before the committee regarding the structural steel fabrication industry on the west coast of the United States. With me this afternoon is Mr. Stephen Schwartz, vice president and general manager of the Palm Iron & Bridge Works, a structural steel fabrication company located in Sacramento, California. Today we would like to first discuss the nature of the structural steel fabrication industry on the west coast, giving background of its development over the last two decades, and then discuss the current trends in the industry and concerns over recent increases in imports of fabricated structural steel.

Today the structural steel fabrication industry on the west coast consists of approximately twelve large and 50 smaller companies located primarily in the States of California, Nevada and Oregon. Our business is fabricating raw steel beams and shapes, through cutting, welding, punching, drilling, etc., for use in construction projects in the Western region of the United States. Our fabricated steel products are used mainly in office and commercial buildings, with some high-rise residential construction, as well.

Table two included at the back of this testimony indicates the size of the industry on the west coast. In 1983, contracts were awarded for over 300,000 tons of fabricated structural steel for use in office and commercial building construction. This represents total revenues or value for the industry or approximately $240 million. This figure for 1983 is somewhat lower than those of 1982 and 1981, but still represents a substantial industry in our region, employing over 6,000 persons.

The raw structural beams and shapes used for fabrication by our industry come from both domestic and foreign (primarily Japanese and European) sources, though supplies of foreign raw steel have been used more and more during the last 10 years. In fact, raw steel supplied by foreign mills accounts for as much as 75 percent of the steel used in fabrication by some companies on the west coast. The reasons for this reliance on foreign imports of raw steel and expansion in number of fabrication companies on the west coast are several.

Prior to and during the mid-1960's, supplies of raw steel for fabrication on the west coast were supplied and controlled entirely by the major domestic steel mills (United States Steel, Bethlehem, etc.) who had facilities in the Western United States for rolling and distributing steel to fabricators. At the same time, those major domestic steel mills also operated their own fabricating plants on the west coast which, because of preferred treatment by their parent mills in supplying raw steel, won most of the major contract awards for structural steel fabrication. The two most prominent fabricating subsidiaries of the domestic mills were American Bridge (subsidiary of United States Steel) and Bethlehem Fabrication.

The major advantages held by those subsidiaries were the result of supply policies their parent mills applied to independent fabricators such as myself. Those policies included: (1) domestic mills would not guarantee delivery to independent fabricators; and (2) neither would they guarantee price at the time of order.

Therefore, in bidding for construction contracts or subcontractors, independent fabricators were forced to bid using unreliable delivery dates and risking potential (and many times real) price increases after order of the raw steel.

The result of these policies was that the fabrication subsidiaries of the major domestic mills dominated the structural steel fabrication industry on the west coast during that period.

Then, during the mid-1960's to early 1970's a few of the smaller, independent fabricators began to compete with the fabricating subsidiaries of the domestic mills. They were able to do so by taking advantage of their generally lower overheads and by using imports of raw structural steel from Japan and Great Britain. These imports were just beginning to become available to fabricators on the west coast and were priced lower than supplies of raw steel from domestic mills (sometimes by as much as 25 percent or more).

By using their overhead advantage and cheaper imports of raw steel, independent fabricators gradually took over a significant share of the structural steel fabrication market on the west coast. While this increase in market share for independent fabricators was interrupted somewhat in 1972 and 1973 (because a rapid increase in construction activity caused a severe shortage in availability of raw steel, foreign or domestic) it continued again during the mid-1970's as greater supplies of foreign raw steel became available to west coast fabricators.

During the mid-1970's imported raw steel from Japan and Great Britain became more available to the independent fabricators on trhe west coast. The importers would guarantee price at the time of order as well as date of delivery and in many cases would help independent fabricators finance their steel purchases. At the same time, the domestic steel mills held firm on their unpredictable pricing and delivery terms. They continued these policies, even though they were losing market share for raw steel.

It was during this period that the large fabricating subsidiaries were gradually forced from the west coast market by competition from independent fabricators and their reliable sources of imported raw steel, as well as high overhead resulting from unworkable union contracts.

The late 1970's saw a continuation of this trend of greater market share being won by independent fabricators and the gradual elimination of the fabrication subsidiaries of the large domestic mills. This occurred while there was a rapidly expanding economy in the West creating an increased demand for fabricated structural steel used in construction. More independent fabricators began to appear and tool-up to meet this demand.

Finally, during this period the domestic steel mills began to compete with imports of raw structural steel by discounting their "book" prices and guaranteeing price at the time or order. However, they also began reducing output and capacity in their western facilities.

1979 and 1980 saw the national recession affect the West as well as other regions in the country. Demand for fabricated structural steel decreases and quotas, either voluntary or mandatory, are applied to imports of raw structural steel. At the same time, domestic mills began closing all facilities on the west coast capable of producing raw structural steel.

The recession also affected independent fabricators as lower demand also resulted in even smaller quotas on imports of raw structural steel. Its effects began to lessen, however, and 1982 and 1983 saw some recovery of demand for fabricated structural steel. But, late 1982 and 1983 saw rise of a new threat to the fabrication industry on the west coast—imports of fabricated structural steel from the Republic of Korea.

Table 1 in the appendix to this testimony shows that from 1982 to 1983, imports of fabricated structural steel from the Republic Korea increased from 3,700 tons annually to over 23,000 tons—a 600-percent increase in actual imports. During that same period, Korea fabricators won contract awards on the west coast for over 75,000 tons of structural steel, thereby achieving a market share of approximately 24 percent in just over 12 months.

The Koreans were able to target the west coast market for intense import competition by taking advantage of two circumstances: (1) Their ability to purchase raw structural steel from Japanese mills at prices greatly discounted (up to 30 percent) in comparison to those available to west coast fabricators; and (2) their much lower labor rate (about $2 per hour versus $10 per hour for west coast fabricator employees).

Of course, the effect of the Korean presence in the west coast market for fabricated structural steel goes beyond the actual 24 percent market share they have attained. Their mere presence in a bidding competition causes a significant depression in the price for the project. In fact, since the emergence of this intense competition from Korean, the average price for fabricated structural steel on the west coast has decreased by approximately 22 percent from $800 per ton to $630 per ton.

To compete with this intense Korean activity we have bid projects at cost, or below, without profit. However, even these actions have not been successful when competing head to head against Korean fabrication. Some west coast fabricators have resorted to joint venture projects with Koreans, in order to survive, though their role in such ventures is reduced to that of a broker with very little revenue involved. Importantly, those roles do not keep employees working, and the result of the competition and lost contracts is increased unemployment in the west coast industry.

In discussing this situation, I would like to make one very important point—the steel fabrication industry on the west coast is a modern, technologically advanced industry. We use the most advanced fabrication techniques in the world and have continually invested capital in new machinery to maintain a competitive position. Our inability to compete with Korean fabrication stems not from a failure to invest capital, but from the Korean's advantage in purchasing raw material and their greatly lower labor rate.

We are concerned over the continuation of this trend, which if left unchecked, could eliminate most fabricators on the west coast. I also wish to express my sincere appreciation to the chairman for requesting the U.S. International Trade Commission to conduct a general investigation into our situation on the west coast, which will statistically document our concerns.

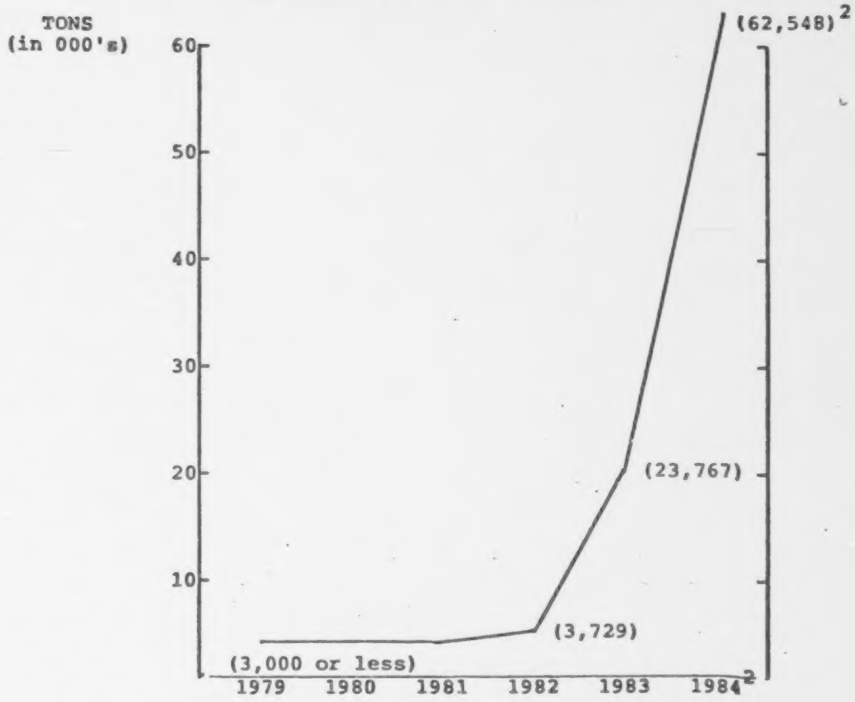
Finally, I would like to comment on how a quota on raw steel imports, without including fabricated steel products, would worsen our competitive position with the Koreans. This would occur because a quota on raw steel imports would: (1) Limit our ability to buy competitive raw steel imports to fabricate, and increase the price of those imports, while also (2) encouraging greater imports of fabricated steel in order to avoid the quota on raw steel imports.

The resulting worsening of our competitive position could most likely cause a speedy elimination of many structural steel fabricators on the west coast.

Thank you again for the opportunity to discuss our situation on the west coast and we will be happy to answer any questions the committee has.

Table 1

WEST COAST IMPORTS OF FABRICATED STRUCTURAL STEEL
From Republic of Korea (1979-1983)[1]



YEAR IMPORTED

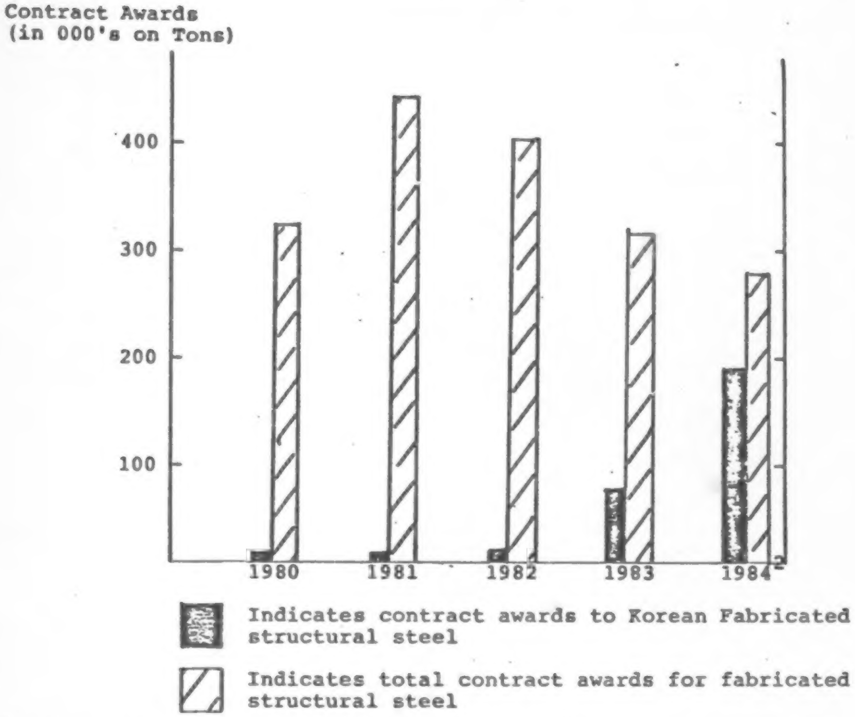
[1] Imports of fabricated structural steel into the Pacific Coast region including ports of San Diego, Los Angeles, San Francisco, Calif.; Portland, Oregon; Seattle, Washington; and Anchorage, Alaska.

[2] Figures for 1984 are estimates based on imports during January and February, 1984.

Source: Bureau of the Census, U.S. Department of Commerce, U.S. Imports for Consumption and General Imports (FT-246 series)

Table 2

CONTRACT AWARDS FOR FABRICATED STRUCTURAL STEEL WESTERN REGION OF U.S.[1] (OFFICE AND COMMERCIAL BUILDING)



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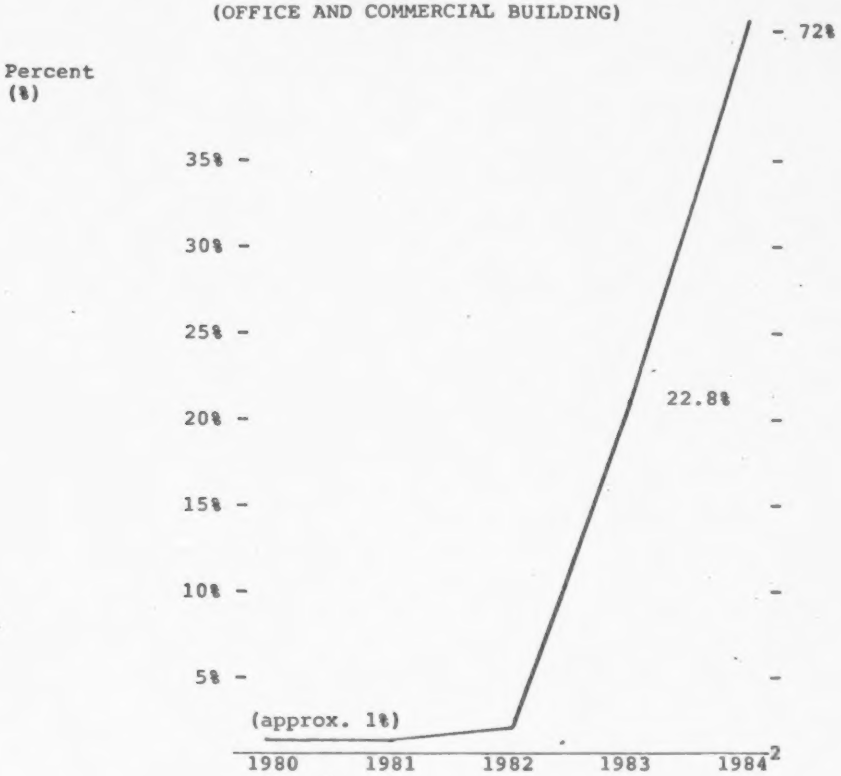
[1] Source for Total Contract Awards: American Institute for Steel Construction, Five Year Forecast, October 1983.

[2] Korean Awards for 1984 are projections using the projected percentage increase in actual imports from Korea (based on imports of fabricated structural steel from Korea during months of January and February, 1984) times the Korean awards for 1983.

Source for Korean Awards: West Coast Fabricators and Steel Industry Association.

Table 3

CONTRACT AWARDS FOR KOREAN-FABRICATED STRUCTURAL STEEL IN WESTERN REGION OF U.S. AS A PERCENT OF TOTAL CONTRACT AWARDS IN WESTERN REGION[1]
(OFFICE AND COMMERCIAL BUILDING)



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[1] Source for Total Contract Awards: American Institute for Steel Construction, Five Year Forecast, October 1983.

[2] 1984 percentage is a projection using percentage increase in actual imports projected for 1984 multiplied by total Korean Awards for 1983.

Source for Korean Awards: West Coast Fabricators and Steel Industry Association.

Table 4

MAJOR PROJECTS WHERE SUCCESSFUL BIDDER BID USING KOREAN-FABRICATED STRUCTURAL STEEL

12-82 to 12-83

PROJECT	TONS	KOREAN FABRICATOR
Columbia Center, Seattle	15,000	Samsung
Sohio Office Bldg., Anchorage	3,200	Hyundai
Orange County Performing Arts Center, Costa Mesa	4,100	Hyundai
456 Montgomery Street, San Francisco	2,100	Hyundai
S.F. Federal Savings, San Francisco	3,000	Samsung
Colorado Place, Santa Monica	6,000	Samsung
Pacific Telegraph & Telephone San Ramon	17,000	Hyundai
G.M./Toyota, Fremont	4,800	Hung Hwa
State Office Building, San Francisco	2,000	Hung Hwa
Citicorp, Los Angeles	11,000	Hyundai
Wilshire-Fairfax, Los Angeles	3,300	Samsung
71 Stevenson St., San Francisco	3,600	
TOTAL	75,100 Tons	

Chairman Gibbons. This concludes our hearing today on these problems of the steel industry. We still have several more witnesses yet to be heard from and we are scheduling additional days of hearings on this subject, just as soon as the committee calendar permits. Interested persons should bear in mind that the legislative schedule of the Ways and Means Committee at this time is very, very busy. We will issue a statement as soon as we can get some more open time on our calendar.

Thank you very much for coming.

Mr. Schwartz. Thank you, sir.

[Whereupon, at 1:30 p.m., the subcommittee adjourned.]

PROBLEMS OF THE U.S. STEEL INDUSTRY

WEDNESDAY, JUNE 20, 1984

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met at 10 a.m., pursuant to notice, in room B-318, Rayburn House Office Building, Hon. Kent Hance presiding.

Mr. Hance. The hearing will please come to order.

Today the Subcommittee on Trade will resume its hearings on the problems of competition in the steel industry. In this, the fourth day of hearings, we will hear testimony from the Steelworkers; also from one of the most successful minimills; from importers and exporters; and from various industry groups and associations.

We will also be hearing from the CBO—Congressional Budget Office, in response to the subcommittee's request for their analysis of the economic impact of the steel quota bill.

Our first witness is Mr. Lynn R. Williams, who is president of the U.S. Steelworkers of America. Mr. Williams, we are sorry that the conflicts during our first day of hearings required rescheduling your appearance. We are happy to have you with us today and your statement will be included in full in the record.

I would tell all the witnesses that we certainly understand your having to wait. Also any summation of your testimony will be appreciated by members of the committee. Please proceed.

STATEMENT OF LYNN R. WILLIAMS, PRESIDENT, UNITED STEELWORKERS OF AMERICA, ACCOMPANIED BY CARL FRANKEL AND JACK SHEEHAN

Mr. Williams. Well, good morning, Mr. Chairman and members of the committee.

I am Lynn Williams, president of the Steelworkers, and associated with me here this morning is Jack Sheehan, one of my assistants and head of our legislative department here in Washington, and Carl Frankel, an associate general counsel of the union.

I appreciate your comments about running out of time at the earlier hearing, but I really have no complaint. It is good to be able to start first thing in the morning on such a fine morning in Washington.

I have a total submission which we are putting in, but I have a few pages of reading text which I will read, and a supplemental statement in view of the ITC decision, which I would like to read, but none of that should take too long.

The production of steel has always captured the attention of those associated with it. There is a fascination with the awesomeness of the process. Steel is indeed unique for many reasons, not the least of which has been the role of governments. Currently, the steelmaking facilities of many of our major trading parties are either government owned or government supported.

European steelmakers have, in effect, formed a consortium under the iron and steel community of the Common Market and have developed intergovernmental policies governing production levels, price range, import penetration, and capacity goals. The European steel mills are undergoing a restructuring program with the very definitive and positive assistance of the government. Political and social policies are designed to coordinate economic and trade measures in the best interests of the European steel industry.

The advanced developing countries are also engaged in a program of active expansion of their steelmaking capacities—an expansion which is not possible without the intervention of government and the assistance of the various quasi-governmental international financial institutions through the extension of special credit financing arrangements.

In all these endeavors, there is, of course, a trade aspect—at times there are trade distortions. But trade policies occupy an essential place in the market designs of the older steel mills of Europe and the expanding newer mills of Third World countries.

It is not unusual, therefore, Mr. Chairman, that we appear before your committee in an effort to adjust U.S. trade policy to the new environment facing our industry. Because of the uniqueness of steel, there is a need for a sectoral steel trade policy. During the Tokyo round, we did seek an international format under GATT for developing a realistic steel trade flow. Instead of a specific steel trade section in the GATT Treaty of 1979, we did receive an initial forum of sectoral policy discussions under the auspices of the OECD.

Our involvement in that organization and our experience with the adverse impacts of trade in our domestic market leads us to reiterate the need for a domestic steel sector trade policy. The Fair Trade in Steel Act (H.R. 5081) is the legislative basis for such a trade policy.

There is no need to elaborate on the profound changes which have occurred since the time that Congress passed the 1974 Trade Act, which culminated in the trade arrangements under which we are now operating. A brief reference to some of the statistics does not in any way adequately describe the human consequences of the changes—of the closure of steel facilities. It is, of course, that side of a trade policy with which the union deals.

In 1974, employment in production was 418,000; imports (percentage of supply) was 13.4 percent; and capacity was 155 million tons. In 1983, employment was 208,300; imports 20.5 percent; and capacity 136 million tons.

Recently, imports reached 26 percent of apparent supply with an extraordinary surge, originating from the advanced developing countries. The American steel industry is shrinking, closures are continuing, workers are being terminated and communities are being abandoned.

The union recognizes that much of the steel imports are in the unfair trade category. No doubt the tendency to engage in such practices is induced by the worldwide recession in steel and the particularly grievous credit circumstances facing the advancing developing countries who must submit to the twin market disruptions of cutting back on imports through trade restrictions and increasing exports through unfair trade practices. To that extent, it might be expected that we should rely upon the enforcement of our trade laws.

A most recent example of that is the EC-USA arrangement wherein a comprehensive solution of quotas was applied to a widespread practice of unfair subsidies underpinning numerous steel mill products.

But the international distribution of the steelmaking production and the variety of steel mill products make it exceedingly difficult to respond to a global onslaught of unfair steel import penetration. Even though the EC-USA arrangement arrested unfair imports from the European sector, it left unattended the same practices from other regions.

We, therefore, are seeking a legislative hiatus period to stabilize this unusual and widespread trend until the world economic situation clarifies itself. In effect, there is justification for an industry-specific relief during the cyclical downturn, since our trade laws are not structured to deal with trade violations on such a global scale.

However, Mr. Chairman, we appear before the committee for another reason—and perhaps the most important. We are in need of an industry specific trade policy related to a restructuring necessity. The Fair Trade in Steel Act is unique in that the quotas to be imposed are conditioned upon the fact that there is a statutory obligation upon the steel industry to direct substantially all of its cash flow to investment in the modernization of the industry.

That section of the bill dealing with steel investment I would refer to your special attention, because it represents the quid pro quo commitment that the economic benefits to be derived from the trade relief will indeed be utilized to enhance the steel industry's competitiveness. A recent report from the House Democratic Caucus stated:

> We need to insure that such trade relief is granted only in exchange for industry commitments to reinvest to increase its competitiveness.

Section 5 obligates the Secretary of Commerce to:

One, determine within 90 days of enactment that there are plans to utilize substantially all of the cash flow from the steel sector for modernization in steel of the steel sector.

Two, suspend quantitative restrictions unless such a determination can be made.

Three, review annually that such an investment policy is being implemented under penalty of modification or suspension of the limitations.

It is the inclusion of that commitment in the bill which substantially demonstrates the essential purpose of the bill. The quantitative limitations are linkage to a program of modernization—a modernization necessity which cannot be undertaken under the current trade circumstances. Without the trade moderation provided for in the act; namely, an 85-to-15 percent domestic-to-foreign share of our market, and a 75-to-25 percent ratio in our iron ore market, we will assuredly be subjected to further retrenchements in capacity which might otherwise be needed to be modernized or retired.

The USWA supports H.R. 5081 as a legislative response to the unfair trade penetrations, but especially as a legislative conditioning of the trade environment so as to permit a revitalization of the industry based upon statutory obligations of reinvestment.

Now, as I indicated, I have a short supplementary statement that I add really as a result of the decision of the ITC concerning injury to the substantial product lines in the steel industry.

The committee is aware that the ITC has already given a determination that the steel industry has been seriously injured in certain steel mill items. The Commission's record is replete with the substantive data dominating the injurious role that imports played—a role against which the union has been seeking legislative remedy.

Previously, the Common Market acknowledged that its steel trade was not being conducted according to our antisubsidy laws and accepted a quantitative restraining arrangement in return for a suspension of the petition filed against their imports.

In both cases, it is our contention that the levels of the imports were such that legislative relief could have been forthcoming. However, the steel industry is unique in that steel mill items are varied and an ad hoc approach in which each steel mill import must be challenged seriatum—as required by our trade laws—is most effective. Relief against a number of such steel mill items induces import diversion into the noncovered items against which unfair trade practices have been found relative to their competitors in our marketplace, as in the case with our Third World trading partners.

Our union has been urging that there be a change in public policy with regard to steel trade—a trade in policy which is, however, linked to a commitment that the industry will be required to devote its resources to modernization.

In view of these two events, that is, the ITC injury determination and the EEC-USA arrangement, congressional action on H.R. 5081 seems most warranted. Other antidumping and antisubsidy petitions are in various stages of successful determinants. But the uneven coverage of all these arrangements demands that Congress provide not only trade stability, but also steel trade uniformity. Otherwise, the steel marketplace will be a chaotic patchwork of trade measures.

Thus, for instance, some steel mill items are covered by the ITC injury determination, but not covered by the EEC–USA arrangement. Conversely, some items are controlled by the arrangement, but are not found to be eligible for relief under a section 201 petition.

Nevertheless, Mr. Chairman, all these items do require a period of restraint during which time our domestic steel market situation might be stabilized; the international economic crisis might be abated, especially the credit crunch facing Third World countries; and our steel industry restructuring process can be initiated.

I urge you, therefore, not to be persuaded that the legislative approach is no longer relevant. While legislation was most appropriate before, based upon the substance of the argument, namely, relief from import pressure mostly of an unfair nature so as to allow for modernization, it is now strategically necessary so as to provide a more uniform and consistent treatment of steel imports.

We are confronted with a series of steel trade problems, which in the composite, escape the ability of our trade laws to address. Perhaps these laws should be amended to cope with the unique situation being posited by the steel industry import crisis. But since the multiple administrative procedures have been invoked, each with its one measure of response, it is most appropriate that the Federal Congress intervene with a more complete and comprehensive system of steel trade measures. Previously we were urging congressional action on H.R. 5081 because it was necessary to arrest the erosion of the steel industry. Now we are indicating that congressional action would be not only most appropriate, but also administratively required.

We hope, therefore, that you will complete committee action on the bill before the June recess.

[The prepared statement follows:]

STATEMENT OF LYNN R. WILLIAMS, PRESIDENT, UNITED STEELWORKERS OF AMERICA

EXECUTIVE SUMMARY

Mr. Chairman, members of the Ways and Means Subcommittee on Trade, my name is Lynn Williams and I am the President of the United Steelworkers of America.

I am here today to urge this Subcommittee to favorably consider H.R. 5081, the Fair Trade in Steel Act.

As you know, Mr. Chairman, this bill establishes a five-year, 15 percent market share quota on steel imports, and it legally obligates the American steel industry to commit substantially all its cash flow from the steel sector to reinvestment and modernization of steel facilities. We believe that this latter provision is absolutely essential to any legislative quota bill.

The domestic steel industry, its workers, and their communities have undergone a brutal period of industrial restructuring. To the companies, what this has meant is plant closings, large scale layoffs, and reduced earnings. To the workers, it has meant long-term, structural unemployment and all of the human costs associated with substantially reduced standards of living. To traditional steel communities, it has meant economic decline and regional depression. To the nation as a whole, it has meant a weaker and more vunerable industrial base.

Indeed, since 1977, some 30 million tons of raw steel production capacity has been eliminated. Production employment in the steel industry has declined from 368,000 in 1977 to 211,800 in the first two months of 1984.

In the meantime, steel imports have taken an increasingly large share of the domestic market; from 13.4 percent in 1974 to 26.2 percent in February, 1984. While the Japanese and EEC nations account for a little over half of all steel imports, there has been an extraordinary growth in steel imports from the developing countries; from about 4.6 percent of steel imports in 1975 to 16.1 percent in 1982, a 250 percent increase. Between 1982 and 1983 alone, steel imports from Mexico, for example, increased an astounding 476 percent. Brazilian steel imports increased 107 percent; while those from Argentina increased 68 percent and those from Korea increased 62 percent.

Over the last decade, we have witnessed increasing foreign government intervention in world steel markets.

The EEC steel producers are governed by both price and production controls; they receive a variety of state subsidies; and, through a series of bilateral trade agreements, are protected from imports. Like the rest of the steel producing world, except for the U.S., they seek to aggressively export their excess steel production, often at predatory and unfair prices.

The Japanese, on the other hand, engaged in a massive industrial targeting program aimed at developing a world-class steel industry through direct financial assistance, home market import protection, subsidized research and development and government approved cartels. Again, the massive excess Japanese capacity was aimed at world markets, largely in the U.S.

The newly industrialized nations like Korea, Mexico and Brazil continue to develop largely government subsidized excess steel capacity. In some cases. like Korea, the government owns the steel industry. In 1975, steel capacity in the developing countries was about 44 million tons. By 1980, it nearly doubled to 76 million tons and another 63 million tons are expected to be installed by 1990. This is far more capacity than these nations need to satisfy their own domestic needs. Indeed, the American market in the last few years has been victimized by much of this excess production at prices that are nothing less than predatory.

We are, of course, aware of the arguments that U.S. trade laws are sufficient to deal with unfair trade practices—provided they are enforced. This committee has made a special effort to concentrate on additional Trade Act reforms to shore-up its unfair trade sections. Certainly, the recent governmental measures dealing with unfair steel imports fromthe Common Market have contributed to an easing of the problem. But the pressure of unfair steel imports is not limited to Europe.

The nature of the steel industry—both domestic and international—indicates that trade laws, which are designed to deal with *ad hoc* violations, cannot cope with the scope of the trade problems experienced in steel.

What is necessary is a global and comprehensive response to unfair import pressure. Advanced developing countries are under intense necessity to maximize exports and restrict imports so as to lessen their credit pressure. It is unrealistic to expect that the American steel industry should continue to file time consuming product-by-product, country-by-country *ad hoc* unfair trade petitions. A legislative solution is needed to arrest the pervasiveness of steel imports which are based upon unfair trade practices. H.R. 5081 provides such a solution. H.R. 5081 also represents a legislative approach which is justified upon another basis; namely, the need of the domestic steel industry to modernize. Such a prospect is not possible unless there is trade stability and relief designed to prevent not only market loss, but also structured to allow capital formation.

Excess capacity in world steel production will prevent the domestic industry from obtaining an adequate return in its own market so as to reinvest in modernization. We believe that if the American steel industry is to retain its current capacity, it must be converted into a world-class industry that is internationally competitive. In return, therefore, for trade stability at an 85 percent domestic—percent foreign ratio for five years, there is a reasonable expectation that such a regimen will allow the domestic industry to retool its current capacity.

Obviously, Mr. Chairman, the USWA is concerned about the jobs of steelworkers. But I do believe that our concern should not be viewed as purely parochial or simply a self-interested one. A trade policy should not arbitrarily allow the disappearance of middle income wages for hundreds of thousands of workers. It is these wages which provide the economic foundation for a higher standard of living within the American economy and provide the opportunity for workers to move up the economic scale. We cannot be apologetic that these are good paying jobs. The work is hard and the work is skilled. The wages are commensurate with the product produced. Recently, the Steelworkers took a reduction in their wages. It would be unfortunate that this reduction could not be coupled with trade stability so that a maximum opportunity could be made to take advantage of the current upturn in steel demand. But most especially, the committee should not be persuaded that because there is recovery underway, that no further governmental response is necessary. While the union has doubts about the sustainability of the present recovery, nevertheless, it is during a recovery period that trade stability can be of maximum advantage to the steel industry. If steel demand begins to decline again, then the legislative quotas could lessen the job losses. But if steel demand increases, capital formation under a quota regimen could assure a greater opportunity to modernize the industry.

The union, therefore, urges the committee to favorably report out H.R. 5081 so that a steep industry restructing program can be substantial enough so as to make the domestic mills international steel mills, to assure that the steel jobs are secure jobs and to guarantee that the American economy will have the necessary steel capacity.

In the beginning of 1978, the European Iron and Steel Commission declared the need for an anti-crisis steel program and subsequently in 1980 reaffirmed the "manifest crisis" still existing in the European steel industry's restructuring program. In announcing the Davignon plan for the steel industry of the Common Market, Mr. Davignon said in 1979:

"The steel industry is an industry vital to Europe. Europe needs to make its own steel . . . it cannot afford to be dependent for steel. . . . The Community has a major responsibility to the steel industry, for the Treaty of Paris requires it to secure the steel sector's future and *provides it with the legal and financial means for doing so.*"

Approximately at the same time—December 6, 1977—the Solomon Task Force released for the White House the *Com-Prehensive Program for the Steel Industry.* Treasury Undersecretary Anthony Solomon declared that the U.S. industry faced a number of serious problems which, taken together, provide "a persuasive case for action:"

". . . foreign producers can be expected to continue their aggressive export practices, and the depressed export prices are not likely to recover in the near future. . . . If the current rise in U.S. steel imports were simply a reaction to competitive market forces, there would be less cause for U.S. government concern. But the sharp rise in imports suggests that more than competitive market forces may be driving imports . . ."

In March 1977 at Vienna, the First Consultation of the Iron and Steel Industry in developing countries met under the auspices of the United Nations to project the desirability of expanding their steelmaking capacity to produce at least 30 percent of world production.

I mention these events not to evaluate their effectiveness, but to indicate that during the past decade there has been a very pronounced involvement of world governments in the activities of their domestic steel industries. Whether for better or for worse, the fact of the involvement is a reality and it is a reality that has had a profound impact upon the survivability of the American steel industry.

During this period alone, production employment in the steel industry dropped, according to Department of Labor statistics, from 368.6 thousand workers in 1977 to 211.8 thousand workers in the first two months of 1984. In terms of raw steel capacity, we have eliminated over 30 million net tons. Some may call this rationalization. In the Steelworkers Union we call it plant shutdowns and community disruptions. The social impacts are severe and even more prolonged during the sustained period of recession most recently experienced.

The question before this committee is whether the shutdowns could have been avoided. Or perhaps the more relevant question is whether the policy initiatives undertaken by the federal government were adequate enough to respond to the activities in the international steel environment. I am aware of the fact that free market forces should determine the allocation of our productive resources. But there is no free market in steel. There is indeed an international market, of which the American market constitutes a very large open market for international producers. However, these producers and their domestic marketplaces are not governed by the same principles governing our producers and market.

The abovementioned events, identifying governmental interventions, have resulted in a whole series of market disruptions which, combined, have made it impossible for the American steel industry to be competitive in its own market and have prevented the industry from modernizing its productive facilities. Indeed its response has been a long series of closures—closures which the USWA charges would not have occurred if there had not been a pattern and practice of unfair trade imports and subsidized expansions of steel capacity.

The range of governmental interventions is varied. In the Common Market, EC producers are governed by both price and production controls which are coupled with state aid (subsidies) for operating and modernization expenses and bilateral trade arrangements with 14 countries to control steel imports.

Developing countries are the recipients of subsidized international financing arrangements to build new capacity while imports into their markets are restricted. In 1975, steel capacity in developing countries was about 44 million tons. By 1980, the capacity almost doubled to 76 million tons. According to UNIDO documents, another 63.5 million tons are expected to be installed by 1990, although another 54 million tons are either being negotiated or in the stage of initial feasibility or prefeasibility studies. In support of future expansion, the UNIDO Secretariat stated:

"Whilst the current restructuring of the iron and steel industries in the developed countries is concerned less with the extension of capacities than with intensive modernization and improvement of quality, the needs of the developing countries constitute this dynamic factor in the growth of the world iron and steel industry. To hold back this dynamism would result in the industrial stagnation of the developing countries and, as a consequence, would aggravate the slowing down in the activity of the developed countries."

While such a rationale might be subject to debate, it does indicate that there is a pronounced interest to continue expansion in the Third World Countries, and hence to add to the over capacity problems.

We are, of course, well aware of the industrial targeting program in Japan which insulated the Japanese industry during the period of its growth—an insulation which according to the USITC aided the Japanese steel industry.

"The Japanese Government took a number of steps to encourage the early development of the steel industry. These steps included financial assistance, home market protections, assistance in improve technology and permission to form cartels."

According to the ITC, special aids were still available as late as 1978 for Japanese open hearth and electric furnace steel makers which were designated as "a structurally depressed industry."

While these accelerated imports which emanated from these measures did erode the financial structure of the industry, they also destroyed steelworkers jobs. As certified by the Department of Labor, there were 154,822 workers who received trade adjustment assistance between April 1, 1975, to March 28, 1984. These were those who could meet the stringent criteria of the TRA program. I mention these, however, because they do represent a definitive group of workers who the government adknowledges were adversely impacted by trade, whether traded fairly or not.

During the period tabulated by the Department of Labor, imports as a percentage of supply rose from 13.5% to 26.2%. This is a phenomenal increase. Even more extraordinary has been the growth of the share of imports from developing countries. In 1975 they represented 4.6% of all imports. By 1982, they accounted for 16.1%, an increase of 250%. Most of this exceptional growth occurred in the last few years. As a matter of fact, steel imports from some of these countries experienced unbelievably sharp increases between 1982 and 1983:

Country:	*Percent increase*
Argentina	68.5
Brazil	107.8
Mexico	476.8
Korea	62.7

Mr. Chairman, the USWA appears before this committee in support of H.R. 5081 basically for two reasons:

Unfair trade penetrations, especially during cyclical downturns, must be stopped, and

Trade stability, as a necessary condition for steel industry restructuring, must be provided.

We are, of course, aware of the arguments that our trade laws are sufficient to deal with unfair trade practices—provided they are enforced. This committee has made a special effort to concentrate its attention upon additional reforms of the Trade Act to shore-up the unfair trade sections. Certainly, the recent governmental measures dealing with unfair steel imports from the Common Market have contributed to an easing of the problem. But the pressure of unfair steel imports is not limited to Europe and hence the massive effort elicited to respond to the trade irregularities of Common Market steel producers left unattended the same kinds of irregularities practiced by advanced developing countries.

The nature of the steel industry—both domestic and international—indicates that trade laws, which are designed to deal with *ad hoc* violations, cannot cope with the scope of the trade problems experienced in steel. Despite the fact that the EEC-USA Arrangement is now controlling about 25% of our steel imports, the level of imports continued to rise from 20.5% in 1983 to 26.2% so far this yer.

What is necessary is a more global and comprehensive response to unfair import pressure. Advanced developing countries are under intense necessity to maximize exports and restrict imports so as to lessen their credit pressure. It is unrealistic to expect that the American steel industry should continue to file time-consuming product-by-product, country-by-country *ad hoc* unfair trade petitions. A legislative solution is needed to arrest the pervasiveness of steel imports which are based upon unfair trade practices. The Fair Trade in Steel Act (H.R. 5081) provides for such a *legislative intervention*. It might be argued that only an administrative intervention is necessary. Yet despite a multitude of such petitions, steel imports continue to increase. USWA, therefore, urges the committee to conclude that under the conditions prevailing in the international steel markets, that our domestic laws are not equipped to deal with the damage which is being done in an expeditious, global and comprehensive manner, i.e., moderating steel flows from *all* steel producing countries in *all* steel mill product *categories* during the *same* uniform period.

Enactment of H.R. 5081 represents a legislative intervention, the justification for which is long overdue as a response to injurious unfair imports in view of the fact that the trade laws are not able to cope with the uniqueness of the steel industry when faced by such a type of import penetration. However, H.R. 5081 represents a legislative intervention whose justification rests upon another basis, namely, the need of the domestic steel industry to modernize. Such a prospect is not possible unless there is trade stability which would be designed to prevent not only market loss, but would be also structured to allow capital formation. In a recent report, *World Steel Dynamics* indicated:

"As we see it, the United States private sector will not make sufficient funds available to its steel industry to sustain capacity in view of the obvious long-term problems facing companies."

Excess capacity in world steel production will prevent the domestic industry from obtaining an adequate return in its own market so as to reinvest in modernization. Hence, the USWA recognized that if the American steel industry is to retain its current capacity, it must be converted into world-class capacity, i.e., it must be of international competitive quality. In return, therefore, for trade stability at an 85% domestic to 15% foreign ratio for five years, there is a reasonable expectation that such a regimen will allow the domestic industry to retool its current capacity. Let there be no misunderstanding that excess capacity does not exist within the domestic industry. Under a normal steel demand period, current capacity can barely satisfy consumer needs. Further reductions in capacity will place steel consumers at a distinct economic disadvantage and probably restrain economic growth.

Therefore, maintenance of current capacity under modernized conditions is an absolute necessity. However, the USWA did not support previous quota bills, precisely because, while the expectations and the intent of the legislation was to assist in a restructuring program, there was no statutory commitment placed upon the industry. Section 5, Steel Investment, of H.R. 5081 removes that impediment by conditioning the quotas upon a modernization plan. The Secretary of Commerce must make a determination that there is a plan to modernize without which "the quantitative restrictions shall not take place." Even more, the Secretary shall annually make an evaluation to determine that the industry "is utilizing substantially all the cash flow from the steel sector for reinvestment in and modernization of the steel sector," otherwise, the steel quotas will be modified or suspended.

In response, therefore, for a change in public policy relating to steel imports, there is a commitment—a *quid pro quo*. While the steel industry has indicated its intent to modernize, there is now a statutory obligation which links legislative quotas to modernization investments.

Obviously, Mr. Chairman, the USWA is concerned about the jobs of steelworkers. But I do believe that our concern should not be viewed as purely parochial or simply a self-interested one. A trade policy should not arbitrarily allow the disappearance of middle income wages for hundreds of thousands of workers. It is these wages which provide the economic foundation for a higher standard of living within the American economy and provide the opportunity for workers to move up the economic scale. We cannot be apologetic that these are good paying jobs. The work is hard and the work is skilled. The wages are commensurate with the product produced. Recently, the Steelworkers took a reduction in their wages. It would be unfortunate that this reduction could not be coupled with trade stability so that a maximum opportunity could be made to take advantage of the current upturn in steel demand. But most especially, the committee should not be persuaded that because there is a recovery underway, that no further governmental response is necessary. While the union has doubts about the sustainability of the present recovery, nevertheless, it is during a recovery period that trade stability can be of maximum advantage to the steel industry. If steel demand begins to decline again, then the legislative quotas could lessen the job losses. But if steel demand increases, capital formation under a quota regimen could assure a greater opportunity to modernize the industry.

The union, therefore, urges the committee to favorably report out H.R. 5081 so that a steel industry restructuring program can be substantial enough so as to make the domestic mills international steel mills, to assure that the steel jobs are secure jobs and to guarantee that the American economy will have the necessary steel capacity.

Mr. **Williams**. Along with that, I would like to submit, along with our other submissions, a copy of "New Steel Imports," dated June 1, in which there is a very interesting listing of all the various actions which are underway, which I think indicates the helter-skelter nature of all of this and the variations and the inclusions and the exclusions, and I think adds substance to the arguments that we really need a comprehensive way to deal with this problem.

Mr. **Hance**. Without objection, it will be made part of the record.

[The information follows:]

LEGISLATIVE QUOTAS AND ADMINISTRATIVE RELIEF

The committee is aware that the ITC has already given a determination that the steel industry has been seriously injured in certain steel mill items. The Commission's record is complete with the substantive data documenting the injurious role that imports played—a role against which the Union has been seeking legislative remedy.

Previously, the Common Market acknowledged that its steel trade was not being conducted according to our antisubsidy laws and accepted a quantitative restraint arrangement in return for a suspension of the petitino filed against their imports.

In both cases, it is our contention, the levels of the imports were such that legislative relief could have been forthcoming. However, the steel industry is unique in that steel mill items are varied and an *ad hoc* approach in which each steel mill import must be challenged seriatim—as is required by our trade laws—is most ineffective. Relief against a number of such steel mill items induces import diversion into the noncovered items until subsequent successful petitions are filed against those items—or against other countries which accelerate imports in those very items against which unfair trade practices have been found relative to their competitors in our marketplace, as is the case with our Third World trading partners.

Our Union has been urging that there be a change in public policy with regard to steel trade—a change in policy which is, however, linked to a commitment that the industry will be required to devote its resources to modernization.

In view of these two events, i.e., the ITC injury determination and the USA Arrangement, congressional action on H.R. 5081 seems most warranted. Other antidumping and antisubsidy petitions are in various stages of successful determinations. But the uneven coverage of these arrangements demands that Congress provide not only trade stability, but steel trade uniformity. Otherwise, the steel marketplace will be a chaotic patchwork of trade measures.

Thus for instance, some steel mill items are covered by the ITC injury determination, but are not covered by the EEC-USA Arrangement. Conversely, some items are controlled by the Arrangement, but are not found to be eligible for relief under a Section 201 petition.

Nevertheless, Mr. Chairman, all these items do require a period of restraint during which time our domestic steel market situation might be stabilized; the international economic crisis might be abated, especially the credit crunch facing Third World countries; and our steel industry restructuring process can be initiated.

I urge you, therefore, not to be persuaded that the legislative approach is no longer relevant. While legislation was most appropriate before, based upon the substance of the argument, namely, relief from import pressure mostly of an unfair nature as to allow for modernization, it is now strategically necessary so as to provide a more uniform and consistent treatment of steel imports.

We are confronted with a series of steel trade problems which in the composite escape the ability of our trade laws to address. Perhaps, these laws should be amended to cope with the unique situation being posited by the steel industry import crisis. But since the multiple administrative procedures have been invoked, each with its own measure of response—it is most appropriate that the federal Congress intervene with a more complete and comprehensive system of steel trade measures. Before we were urging congressional action on H.R. 5081 because it was necessary to arrest the erosion of the steel industry. Now we are indicating that congressional action would be most timely and administratively necessary.

We hope therefore, that you will complete committee action on the bill before the June recess.

February 24, 1984

Filed	Action	Company or Group	Country	Product	Status (Date)
9/28/82	AD	Manufacturers' cmte: nine companies	Korea	Wire Rope	Negative 9/12/83
9/30/82	AD	Atlantic and four companies	Trinidad & Tobago, Brazil	Wire rod	Affirmative 11/16/83 (Review on Brazil due 2/14/84)
10/6/82	CVD	Manufacturers' Cmte	South Africa	Pipe and tube	Affirmative prelim. 3/9/83; Suspension agreement, 9/12/83
10/7/82	CVD	USWA and Industry Group	UK	Stainless plate, sheet & strip	Affirmative, plate; negative, sheet & strip, 6/9/83
12/16/82	301	AISI	Japan	All products	Rejected by USTR 2/25/83
1/31/83	AD	Bethlehem	Brazil	Sheet and plate	DoC affirmative 1/20/84; ITC due 3/5/84
3/16/83	301	Manufacturers' Cmte	Korea	Wire rope	Withdrawn by petitioners 11/29/83
4/21/83	AD	Manufacturers' Cmte	Korea, Taiwan	Welded pipe & tube	DoC final due 3/12 and 3/14/84
5/16/83	CVD	Atlantic and four companies	Trinidad & Tobago	Wire rod	Affirmative 1/4/84

Filed	Action	Company or Group	Country	Product	Status (Date)
9/29/83	AD	Gilmore	Belgium, W. Germany	Plate & sheet	Sheet dismissed by DoC 11/22/83 Plate " " 1/26/84
10/31/83	AD	Gilmore	Korea	Plate	Prelim. due 4/9/84 DoC
11/10/83	CVD	U.S. Steel	Brazil	Plate, sheet	Affirmative DOC Prel. 2/7/84
11/10/83	AD	U.S. Steel	Brazil	Sheet	Prelim.DoC due 4/16/84
11/10/83	CVD	U.S. Steel	Mexico	Structurals, plate, galvanized, sheet,pipe	DoC extended 2/3/84
11/10/83	CVD	U.S. Steel	Argentina	Sheet	DoC Prelim. Affirmative 2/7/84
11/23/83	CVD & AD AD CVD	Atlantic and four companies	Spain, Poland Argentina, Mexico Czechoslovakia, Brazil	Wire rod	Negative on Czech. and Poland by DoC 2/17/84, but to be reviewed May 1. Others prelim. due 5/1/84
1/13/84	AD	Allegheny Ludlum and USWA and eight companies	Spain	Stainless sheet and strip	AD Prelim. DoC due 4/21/84
1/24/84	201	Bethlehem and USWA	All	All	ITC decision due 7/24/84
2/10/84	CVD	U.S. Steel	Australia	Galvanized sheet	All: Prelim. DoC 3/1/84 and Prelim. ITC 3/26/84
	AD		Spain	Structurals, plate, sheet, galvanized	
	AD		South Africa	Structurals, plate, sheet, galvanized	
	AD		Finland	Plate	

Mr. HANCE. We appreciate your testimony.

I am going to call on my good friend, Mr. Pease from Ohio, for the first questions. He does have another meeting he has to attend shortly and I wanted to call on him first.

Mr. PEASE. Thank you very much, Mr. Chairman.

Mr. Williams, I would like first to congratulate you on your excellent testimony. We are delighted to have you here today. I think your testimony will be very valuable for the subcommittee.

I also want to congratulate you on your recent election and wish you well. I think you show a great deal of courage in even seeking to lead an organization like the Steelworkers in a time of turmoil in the industry.

As you know, I am a representative from northern Ohio. We have a very large United States Steel plant in my district which follows the pattern which you outlined in your testimony. We have roughly half the employees—4,000 out of 8,000—unemployed at that steel mill and no great prospects for improvement in the near future. So I am very much interested in this legislation, of which I am a cosponsor. I think we need to pursue this and as many other remedies as we can for the problems in the steel industry.

I would like to ask you first of all, if this bill passes, and the quotas are in place, and the modernization funds flow from the companies into the plants, how do you think that will affect the overall employment picture? If we are at 208,000 workers now compared with over 400,000 workers 10 years ago, where are we likely to be 4 or 5 years from now? Do you have any notion at all?

Mr. WILLIAMS. Well, we have made some calculations. I think the first point—thank you for your comments, incidentally, I can use all the good wishes I can receive—I think the fundamental point to make, of course, is that we are desperately anxious to stop the erosion and that we at least find some stability and maintain what we have. But we have made some estimates, or had some estimates made for us, on the basis of different methodologies.

One of these estimates is that per $1 billion of increase in sales there would be provided something over 15,560 more jobs in the steel industry itself, and in the indirect jobs that then flow from those jobs, another 38,620 jobs, which would be a total of 52,180. That is on using a calculation based on per billion tons, but assuming that—my notes are too scribbled—per billion tons of output, that is assuming there would be an increase of $1.7 billion of output as a result of the application of the 15-percent quotas in the current market situation.

So if we had put the 15 percent quotas into effect today, it is our calculation that those would result in stabilizing present employment, adding 15,000-plus jobs in steel and adding another 36,000-plus jobs in related industries.

Mr. PEASE. So you are looking at perhaps an increase of 15,000. I am very concerned, as I am sure you are, about the future of those 200,000 steelworkers who have lost their jobs and have not been called back to work. In some instances, they are not likely to be called back to work. In my district this group numbers in the thousands. How do you see the bill, if enacted, benefiting those steelworkers who are currently out of work other than the 15,000 who might get called back?

Mr. **Williams**. Well, this bill, of course, doesn't deal head on with that problem. I believe that anything that is done to improve the general state of the economy in the United States and particularly the industrial part of the economy—which in this current recovery that everyone talks about has really not been impacted very significantly, as you are much aware from what happens in your own district—clearly if we have some improvement in the economy generally, and in the manufacturing industrial sector particularly, that assists everyone, but, of course, we need a lot more specific things to be done on behalf of those of our members who may very well never have an opportunity to return to the industry.

It is our judgment that this particular bill is not really the appropriate vehicle to deal with that. There are other bills in place, the Job Training Act, and all the rest, and much more needs to be done in that area. We made a part of our agreement a year ago that we in the industry would collectively seek to do everything we could in terms of seeking Government support to assist in such matters and have some number of programs underway in that regard. Some of the steel companies have put substantial money into that.

We don't feel it is appropriate that any of the resources that this bill provides to the industry should be directed into that particular activity, because if we don't direct the benefits of this legislation into the industry itself, and into the modernizing of the industry, we could simply come to the end of the 5 year period and still be in the same circumstances. So we don't for a minute downgrade the importance of dealing with that problem, we think it is important that you and we and all of us, pursue other avenues in terms of meeting that need.

Mr. **Pease**. Thank you. I can understand that reasoning, but I must say I am a little distressed about the future of the steelworkers, at least in my area, who are out of work and wondering how they are going to get retrained to move on to some other industry. We are providing a lot of protection in this bill which hopefully will generate a lot of profits for steel companies. I wonder if it wouldn't be appropriate to designate at least some part of these profits—expected to net at about $9 to $10 billion—for the retraining and relocation of workers who lose their jobs in the industry?

Mr. **Williams**. I, obviously, don't want to be in a position where I am arguing against the needs of our members and the needs of retraining. We have been talking about this import problem for a long time and I guess there is not much to be done about the past. If there had been more significant assistance earlier on, we might have saved a great many of those jobs. It is important, however, that we do what we can to save the jobs there are and get the industry back on track, so we have thought a great deal about this problem, and it seems to us that those retraining needs obviously are urgent and I think the whole Nation has been remiss in not addressing itself seriously enough to that need, but I think that need ought to be addressed on its own terms.

We, for example—I gave testimony a few weeks ago in terms of plant shutdown legislation—that plant shutdown legislation has been around a long time in Congress. It talks about the need for advanced notice of shutdown and talks about making adequate resources available to train people as it happens and that is really the kind of situation we ought to have. There ought to be an organized flow from early on if there is awareness of difficulty, and then communication about that difficulty, and then procedures in place as people are forced to leave employment, where they would go into retraining or training or basic educational programs, or whatever, that had some point and direction in them in terms of then going on to employment.

I think to try to tack something in here that is comprehensive enough when it is such a massive problem in its own right, the great concern we have is that we may end up not dealing with any of the problems adequately.

Mr. **Pease**. Could you describe for me a little more fully the contractual arrangement that the United States Steelworkers has with the companies in the area of retraining? I think you mentioned that you have some contractual language which encourages or requires, I am not sure which, retraining.

Mr. **Williams**. We had put an Appendix O in the negotiations last spring. We had to face in our own negotiations exactly the same set of problems. We had a very difficult set of negotiations in which our members made the largest single contribution in terms of giving back to the company things that they had earlier negotiated that any group of industrial workers across the whole industry made in the entire country throughout this whole economic period. And we, of course, in those negotiations, were headed into exactly the same problem, that we would have liked out of those negotiations to have a lot of money available to help in the retraining process. As, for example, what happened in the automobile negotiations when some very significant things were done by both Ford and General Motors.

The blunt truth of the matter is that when you are dealing with the automobile industry over this period, you are dealing with an industry that has made a lot more profits and did have a dip, but has recovered—thanks to quotas—very nicely, and we had to face the reality that in steel if we were going to try to save what was there and try to help in some way, then we had the same problem of diversion of resources.

So what we did, we agreed on appendix O in the agreement, which was an agreement between the industry and ourselves, that we would jointly pursue every avenue of public support that was available to us and every program that was available to us to try to establish some adequate, more adequate, or some kind of retraining programs, and we have been proceeding with that, and United States Steel Corp., for example, did put—which was not required by agreement—put some money into the program.

There has also been—you may be aware of it, maybe I could file it with the committee, Mr. Chairman—we have had a steel advisory committee procedure underway. I must confess it hasn't been too productive in most areas so far. There was agreement in the Subcommittee on Employment and Community Adjustments and so on, there is some very interesting analysis and proposals in that document and we can file copies with the committee.

Mr. **Hance**. Without objection, it will be entered.

[The information follows:]

(1) USWA LABOR CONTRACT APPENDIX O

MEMORANDUM OF UNDERSTANDING ON PLANT CLOSINGS

The parties recognize the potential, far-reaching impact of permanent shutdowns of facilities and the need to cooperate in attempting to lessen this impact. Accordingly, in the event of the permanent shutdown of a plant, Company and International Union representatives shall meet to determine whether appropriate Federal, State, or local government funds are available to establish an employee training, counseling, and placement assistance program for that facility. If such funds are available, the Company and Union shall work jointly to secure such funds to establish a program to provide: alternative job training for affected employees for job opportunities primarily within the Steel Industry; counseling for affected employees on available benefit programs and job opportunities within the Company and the area; and job search counseling.

In implementing such program, the Company will cooperate with the involved local union and state unemployment agency, other appropriate public or private employment agencies, and area employers in an effort to seek job opportunities for displaced employees. To further assist affected employees, both the Company and the Union will designate specific representatives at the time of any such permanent plant closing to answer questions by employees pertaining to their rights under the Basic Labor Agreement and various benefits programs.

(2) STEEL ADVISORY COMMITTEE: SUBCOMMITTEE ON EMPLOYMENT AND PRODUCTIVITY AND WORKER AND COMMUNITY ADJUSTMENT REPORT

FINDINGS AND RECOMMENDATIONS

The domestic steel industry is in the process of restructuring. It is important that labor, management and government cooperate to foster a positive environment in which needed changes can best be accomplished. Labor-management cooperation is an essential component.

1. LMPT's

Findings.—The Committee agrees that LMPTs are an important concept in improving the competitiveness of the enterprises and enhancing the long term job security of the employees through active participation by workers and management. In order to achieve success, LMPTs need the full endorsement and support of labor and management.

Recommendations.—Information about and endorsement of LMPTs should be diffused widely through the collective bargaining process, the Department of Labor and other appropriate organizations to encourage their extension throughout the entire domestic steel industry. The Department in particular can make important contributions in support of the parties' joint efforts. One example is in co-sponsoring conferences like the Indiana Governor's Conference on Labor-Management Cooperation. Another is in publicizing examples of successful cooperation in the industry.

2. Employment costs

Findings.—The Committee recognizes that issues of employment costs are critical areas of concern to a viable and strong industry, and that such issues are matters of labor and management to deal with in the collective bargaining process.

Recommendations.—Rising health care costs and other benefit costs are matters for collective bargaining. However, government actions to reduce the costs of health related services are vital to their containment.

Matters that need further review and consideration include the ability to deal more effectively with the problems of fixed versus variable employment costs. To this end, "profit sharing" and other forms of gainsharing discussions between the parties may become an important vehicle in addressing some of these disparities.

Quantitative and qualitative investigations and research by government on an ongoing basis must be accomplished to provide data and recommendations to industry and labor representatives in a objective manner as to employment costs and other developments in the world economy that will have an effect on the restructuring process now underway in the domestic steel industry.

3. Employment security

Findings.—The Committee recognizes that work rule changes and remanning to meet competitive needs are matters that can best be accomplished between labor and management in the collective bargaining process on an individual plant level basis. As to the issue of automation and its effect on the workforce, the parties recognize a continuing need to modernize plants and equipment and to this end, the bargaining history represents examples where labor and management have found successful solutions to this problem.

A major inhibitor to changing job duties and other cost reduction efforts is a lack of job security. In order for the industry to address these problems, innovation efforts need to be explored by labor, management and government. One of these alternatives involves arrangements, especially as practiced in California, Arizona, Oregon, Washington, and Florida. This provides for retention of workers, when faced with temporary reduction in demand, but shortening the work week, with income for the missing days being partially replaced with unemployment insurance.

Another alternative is retaining a portion of those scheduled for layoff in training programs in the plant, for upgrading of skills for operating new equipment, other job related training, and LPT term training and problem solving.

Recommendations.—In planning, designing and installation of new equipment and processes, joint efforts to maximize the impact of those who will operate the system should be undertaken to improve the work environment and the effect on the work force. The Department of Labor, through its Cooperative Labor-Management Program, should work with labor and management representatives to identify and present alternatives to layoffs and disseminate its findings widely throughout the entire industry. Particular emphasis should be placed on identifying actual cases where alternatives have been tried, both inside and outside the steel industry, since in other industries more experience is available.

As incentives to the parties undergoing change that will enhance and improve the competitive nature of the operation and provide long term employment security and stability to the industry, the Committee recommends that tri-partite efforts should be made to explore alternatives such as ways of using private and public programs such as Trade Adjustment, Unemployment Insurance and SUB to retain employees at work for puposes of retraining and to accelerate reemployment.

4. A rationale for adjustment assistance

Findings.—The process of adjustment to drastic changes in the industry creates both individual and community hardship. The alternative demand for displaced steelworkers is often insufficient in several dimensions; limited occupational mobility, large wage differentials, overall insufficiency of demand in many communities, and attitudes and values which inhibit mobility and retraining. The overall problem is also conditioned by a pessimistic view of change which is an outgrowth of historical views of job security. Some laid-off steelworkers may return to their steel jobs as cyclicial conditions improve but most laid-off steelworkers, particularly those from shut-down plants must find employment elsewhere.

Recommendations.—Retraining and job search assistance should be maximized with companies and unions accepting as much responsibility as is feasible. The Federal Government and the states and localities should support labor-management training and outplacement initiatives which promise to reduce unemployment and reduce dependency on transfer payment programs. The size and nature of the displacement problem is such, however, as to require national funding of retraining and job search activities to serve those whose connections to the industry are severed permanently.

An emphasis on retraining and job search does not foreclose continued and serious examination of employee ownership, alternative uses of facilities and other means through which employment can be maintained.

5. The administration of adjustment assistance for steelworkers finding

The funding and administration of grants and technical assistance for steelworkers who have lost or may lose their jobs requires close monitoring at a time when the industry is changing and the national training policy is also assuming a decentralized and local character.

Recommendation.—DOL should create a temporary authority, with tri-partite participation, to receive and coordinate comments and suggestions on program delivery problems. We believe that the size and characteristics of the industry's problems justify the establishment of an *ad hoc* committee that will act as an industry oversight group to enhance the administration of a model steel adjustment program.

6. National support of local initiatives

Findings.—Retraining initiatives which exhibit exemplary labor-management cooperation and innovation should be conducted. One such effort ought to emphasize retraining within the industry for improving overall productivity. Another might use companies to conduct exist training for high demand occupations.

Recommendations.—DOL should set aside a portion of JTRA discretionary funds with priority for jointly sponsored initiatives. Technical and administrative assistance should also routinely be available given the special priority of this industry.

7. Consideration of alternative national policies

Finding.—Given the unique nature of the unemployment in this industry and particularly its community impact, consideration should be given to alternative national approaches to employee and community adjustment of the purposes of educating all parties.

Recommendation.—The Departments of Commerce and Labor should undertake research examining alternative national approaches to employee and community adjustment. This may lead to an international forum on the employment objectives of labor, steel companies and government.

Mr. PEASE. I appreciate that clarification. I guess I hear you saying that appendix O of the contract commits the union and the management of steel companies to seek public funds to help with retraining. It does not commit the companies or any corporations to funding any retraining?

Mr. WILLIAMS. Well, if I might take a minute I can—maybe I can read part of that section:

> Retraining and job social assistance should be maximized with companies and unions with as much responsibility as feasible. The Federal Government and the States and localities should support labor-management training, reduce and transfer payment programs.

That was really a consensus between ourselves and the companies. It came out of a process of negotiation, and a lot of discussion of the problem.

Mr. PEASE. Fine. If I might, Mr. Chairman, just one question on another avenue.

Have you made any studies at all of the adequacy of the investment which is likely to flow from this bill, if it is enacted, as far as modernization is concerned?

As you point out, the steel industry has yielded low returns on its investment for a long time and has not invested as much money as it should have over the years in modernization. I am really concerned that, in spite of the money that is committed by the companies if this bill is enacted, that it will not be enough to do the job. In other words, if this bill produces $5 billion worth of investment, that is wonderful if it is a $5 billion job. But if the job really requires $30 billion, then we will still wind up with an industry that is not fully competitive.

I make this statement in the context of the policy at United States Steel to commit United States Steel's steelmaking profits to modernization, but not to intermix profits from Marathon Oil or its nonsteel operations to modernization of the steel sector.

Mr. WILLIAMS. Well, obviously whatever this bill does helps. Now, our Steel Industry Committee is dealing with the investment question on a broad basis across the industry, and there has been a subcommittee working at this, but there has been nothing that involves the Government and industry and ourselves. There has been nothing at this moment in the way of any agreement about exactly how that should come out. I don't know whether we have any information available right now. Let me consult.

Our general position is that there has been a $2 billion annual shortfall. A combination of the contribution our members made in the negotiations last year, plus trade relief, would be enough to meet that shortfall and that would enable the industry in the long-term cycle, 22-year cycle, to reestablish itself and to be up to date.

Mr. **Pease**. Would that assume, then, that the quotas would need to be in place for the full 22 years?

Mr. **Williams**. No; that is assuming the 5-year position.

Mr. **Hance**. Thank you, Mr. Pease.

I have a couple of quick questions. People come by to visit with me that are opposed to the bill. The fact is, however, that imports currently account for about 25 percent of the market. And what do we do about the footwear industry? In that sector, imports account for 40 percent of our market. What do we do about the electronics industry, where import penetration is 70 percent? And what about the other industries that have problems? I think that apparel has import penetration of some 35 to 40 percent. That is a question that we all get, and how do you answer that question?

Mr. **Williams**. Of course, that goes right to the heart of our concern. Our prospective is that we have watched industry after industry disappear. You mentioned industries where the import penetration is very severe. You could go on with a list of industries where the industry doesn't exist any more.

Of course, we think that the steel industry is of such unique importance to the modern industrial economy that if we could simply sit back and let that happen to the steel industry and watch it disappear as well—which it did in a very significant degree—that that would really be an enormous disservice to not just the steelworkers, not just to the steel industry, but to the United States of America, to every citizen in the country, because if we once lost our capacity to make the basic products of steel, which is essential to the functioning of the industrial economy, if we once became dependent on foreign sources for as vital a material as steel, I don't think it takes much imagination to think what might happen.

We know what happened when that became the case in energy. Then, of course, there is the whole question of being able to meet our national defense needs in the United States, which also requires that we maintain a basic and available steel industry. So it is exactly the example of what has occurred in other industries, including those that have disappeared, many products that you really can't find anybody in America making in any significant degree, that sharpens our concern that we all have a responsibility to make sure that that doesn't happen to the steel industry.

Mr. **Hance**. What about the provision limiting the relief to 5 years. Is that going to be adequate?

Mr. **Williams**. Well, we hope it is going to be adequate. That is the best judgment we can make. We live in a world in which the only constant is change, and I suppose it takes a brave man to predict exactly where things will be 5 years from now—or a foolish one—but given the best information we have and the best knowledge we have, and the best analysis we can make of the circumstances, that would seem to be a reasonable proposition.

We are not excluding everybody from the market, we are talking about permitting to come into the American market more steel from other countries than goes into any steel market in the world. The Europeans effectively keep out other steel at a rate of 10 percent. We are talking about maintaining some trade and some relationship, but we are also seeking a period of stability in which our own industry can regroup and modernize and all these things we have been talking about.

Mr. HANCE. You mentioned the complexities of the trade remedy laws and the filing of trade cases. My staff pointed out to me one of the steel companies in my State just filed 10 cases against five countries and had to carry 1,500 pounds of paper to the ITC and the Department of Commerce.

Mr. WILLIAMS. Mind if I pick up that argument and use it a little bit?

Mr. HANCE. Go ahead.

Mr. WILLIAMS. Thank you.

Mr. HANCE. Feel free.

Mr. WILLIAMS. Thank you, it is a very good point. That is just a few cases, and we are giving you a list of all the actions that are currently going on.

Mr. HANCE. What has happened is that our Government has been overwhelmed with our complex trade remedy laws and there are so many problems that they don't have the manpower to process everything.

Mr. WILLIAMS. We end up with a patchwork of solutions.

Mr. HANCE. A little here and a little there.

Mr. WILLIAMS. Yes, and one is not consistent with the other.

Mr. HANCE. I appreciate your being here, Mr. Williams. You know, being a Member of Congress is not an easy job. But it is probably a lot easier than being president of the United Steelworkers right now and I appreciate your testimony, and I will call the next witness.

Mr. WILLIAMS. Thank you very much.

Mr. HANCE. Thank you.

Mr. Kenneth Iverson, president and chief executive officer of NUCOR Corp. Thank you for being here. I appreciate your also being able to arrange your schedule and to work this hearing in so that it would be convenient for us as well as for you. You may proceed.

STATEMENT OF F. KENNETH IVERSON, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, NUCOR CORP.

Mr. IVERSON. Thank you, Mr. Chairman.

I appreciate this opportunity to testify on the domestic steel industry. We fall in an unusual category, we are a profitable steel company and we are opposed to trade restrictions on steel products. We believe that tariff or nontariff trade carriers will delay modernization of our steel industry, will cost the consumer billions of dollars, and could seriously injure both our economy and smaller steel producers.

Nucor Corp. is a manufacturer of steel and steel products. We operate seven steel minimills on four sites. In 1983 we produced 1,400,000 tons of steel. We are the ninth largest steel company in the United States and have an annual capacity close to 2 million tons.

One, all of our mills use the latest steel technology; 100 percent of our steel is continuously cast.

Two, for more than 10 years, the price of the steel products we produce, FOB our mills, has been equal to or less than the dockside price of these products from foreign suppliers.

Three, for the last 10 years, we have not closed a single operation nor laid off a single employee for lack of work.

Four, we operate profitably. Since constructing our first steel mill in 1970 the company has never had a loss quarter.

There are two reasons why our primary steel industry has lost advantages it once had in the marketplace. One is that many of our steel plants are old and inefficient.

In the last three decades, many of the major developments in steelmaking were made outside of the United States. Our larger steel companies have not quickly accepted technological advances and have adopted new techniques only when the economic evidence is overwhelming.

Continuous casting is a method of producing a billet which can be rolled directly into a finished product. It eliminates ingot pouring, soaking pits, reheating furnaces and breakdown mills. The yield from molten metal to finished product is significantly improved. It reduces energy costs.

Last year the United States produced about 27 percent of its steel by the continuous casting process. In Japan more than 80 percent of the steel was continuously cast. Italy, Austria, West Germany, Sweden, France, Canada, Belgium, and the United Kingdom all had a higher percentage of continuously cast steel than we did in the United States.

About 10 percent of the steel in the United States is still produced using old open hearth furnaces. The Japanese shut down their last open hearth furnace more than 5 years ago.

The second problem of our major steel producers is productivity.

Newer Japanese mills report productivity in the range of 700 to 1,000 tons per employee per year. The productivity in older integrated mills in the United States is half of that. The U.S. steel industry's problems in productivity stem from the outdated plants mentioned earlier and is aggravated by restrictive union work rules and an excessive number of people—and here I include clerical, administrative, and management as well as production workers. Both of these problems have been well recognized and documented.

I am not pessimistic about the future of the steel industry. We have enough comparative economic advantages to have a steel industry that can compete in the international marketplace. We have an ample supply of iron ore and an ample supply of coke. Our electric costs are lower than those in most industrialized countries. We have moderate cost steel scrap, plus the advantage of lower freight costs in most areas of the United States.

We have seen more realistic depreciation schedules, a reduction in corporate taxes and a relaxation of regulation. Our major steel companies are increasing the percentage of continuous cast steel and are modernizing their facilities. The question is, What can or should the Government do to facilitate and expedite this restructuring of the steel industry?

We certainly are not overseeing the demise of the steel industry and it is not going to disappear from this country. We see it restructuring from a smokestack industry to and industry that is more oriented toward high technology.

We are opposed to tariffs or nontariff trade barriers for steel products:

One, there are steel mills outside of the United States that can produce steel more economically than some mills in this country. They should not be denied access to our markets, or we to theirs.

Two, quotas and other nontariff trade barriers have been tried before. There is little or no evidence to indicate that the steel quotas in the early 1970's or the trigger prices of the late 1970's had any beneficial effect in modernizing our integrated steel mills or making them more competitive in the international marketplace. They caused higher steel prices and delayed modernization or closing of older, more inefficient plants.

Three, these barriers to steel imports cost the American consumer billions of dollars. There are estimates that the trigger price program in the late 1970's cost the American consumer over $1 billion a year and may have saved only temporarily some 12,000 steelworking jobs. That is over $80,000 per year per job. There must be a more efficient way to save steelworkers jobs if that is your objectives.

Four, tariffs or nontariff trade barriers on only a select group of products in the steel industry could result in a policy of foreign steel suppliers increasing the amount they export to the U.S. steel products not falling under these restrictions and injure efficient steel producers who have no protection.

Five, the real hazard in trade barrriers is that manufacturers outside of the United States, or U.S. manufacturers who move outside, use the cheaper steel available on the international market and then ship into the United States a wide variety of products at lower cost than domestic manufacturers because of our higher steel prices. World market prices on some steel items are $100 to $200 per ton lower than U.S. domestic prices. This imbalance could eventually have serious effects on the steel service center industry, the automotive industry, farm implements, appliances, and numerous other industries where steel costs are important.

With this occurring, steel demand in the United States will be lower and steel capacity would have to shrink even further. It is ironic that tariffs and nontariff barriers could not only seriously damage the economy but could accomplish the very thing they were designed to prevent.

We feel there are ways by which the Government could provide assistance to the steel industry. Some of these include:

First, programs for retraining or relocation are important for those employees affected by shutdowns. Unfortunately, programs of this type in the past have not been particularly successful.

Second, a modernization tax credit for buildings and equipment purchased to modernize existing facilities.

Third, a new facilities tax credit for buildings and equipment purchased to build new and modern steelmaking facilities.

Fourth, a shutdown tax credit to encourage the closing of antiquated facilities. Such a credit might be related to a percentage of severance pay or other direct cash costs associated with shutdown.

Fifth, increased investment tax credits for both new buildings and equipment associated with pollution control.

We believe a program of special tax credits is a far superior alternative to protectionist measures. Protectionism for the steel industry will penalize the consumer, delay steel industry modernization, injure efficient steel producers, and could seriously damage the economy.

Thank you very much.

Mr. HANCE. Thank you, Mr. Iverson.

I have one quick question. Are your employees unionized?

Mr. IVERSON. No; they are not.

Mr. HANCE. How does that affect your costs?

Mr. IVERSON. It primarily affects our cost because we do not have some of the restrictive union work rules. Actually, our employees work on an incentive bonus system based upon how much they produce in small groups. In 1982, the average hourly employee in our steel mills made close to $30,000 and we had smelters who made close to $40,000.

We also have a number of unusual benefits, which the steelworkers do not have. Among those is the fact that we pay $1,400 a year for 4 years of college for every child of every employee in the company.

Mr. HANCE. Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

What is the tonnage output of your mill, your plant?

Mr. IVERSON. You mean in efficiency terms?

Mr. SCHULZE. No.

Mr. IVERSON. We operate at about 800 to 850 tons per employee and in this cycle we expect to be at 1,000 tons per employee a year.

Mr. SCHULZE. Eight hundred to a thousand per year?

Mr. IVERSON. Yes.

Mr. SCHULZE. And how many employees do you have?

Mr. IVERSON. We have a total of 3,700. About 1,800 of those are in the steel operations.

Mr. SCHULZE. What percentage of your output is exported?

Mr. IVERSON. Very little. We do make some exports of some final steel products, such as steel joists. We have made some exports of billets and some of our structural shapes in the past, but the amount we export is relatively small.

Mr. SCHULZE. One percent, one half of 1 percent?

Mr. IVERSON. Probably less. Certainly less than 5 percent.

Mr. SCHULZE. Any reason for that?

Mr. IVERSON. Actually, most of our mills are not located in an area where it would be advantageous to export. They are located at least 120 to 125 to 200 miles off the coast.

Mr. SCHULZE. Thank you, Mr. Chairman.

Mr. HANCE. Thank you, Mr. Schulze.

Mr. Iverson, we appreciate your testimony. It was very good and informative. One thing that I am going to have to do—and I apologize for this—is to recess the hearing for a little while. The McCollum amendment is up on the floor of the House. That is an amendment I have been working on for some time, and I am going to have to adjourn the meeting until 1:30 because I have got to go to the floor. When we come back, the private sector witnesses will be taken first and then we will finish up with the Congressional Budget Office and the GAO.

Thank you very much.

We stand in recess.

[Where upon, at 11:05 a.m., the subcommittee was recessed, to reconvene at 1:30 p.m.]

AFTERNOON SESSION

Chairman GIBBONS. First, I want to say please excuse my absence from much of today's hearing. We are doing so many things today—not only the immigration bill, but also a tax and spending conference. I am involved in all of these, and so is the rest of my subcommittee. I shouldn't say that this is the normal way we have to work around Congress, but it is the way we always work when we get this close to adjournment. So please excuse us.

Our first objective today, of course, is to hear from those people who have come from out of town, and then to hear from the local witnesses.

Gentlemen, go right ahead and introduce yourselves for the record. We will put your full statements in the record and you may summarize or read or just speak, whichever you wish.

STATEMENT OF FERNAND LAMESCH, PRESIDENT, AMERICAN INSTITUTE FOR IMPORTED STEEL, INC.

Mr. LAMESCH. Mr. Chairman members of the committee. My name is Fernand Lamesch, president of the American Institute for Imported Steel, Inc. In the interest of conserving the committee's time, I will not read my statement but I request that it be inserted in the record as if read in its entirety.

Chairman GIBBONS. It will. Go right ahead.

Mr. LAMESCH. Contrary to much of the testimony which has been given to this subcommittee, steel imports are not the cause of the U.S. industry's problems. As the Comptroller General and others have determined, steel imports are the result of those problems, which are a decline in steel usage, the downturn in the economy, the technical deficiences in steel production in most of the integrated steel mills, high wages which exceed the national average by a factor of almost two to one, and as Mr. Iverson stated this morning, work rules which impede productivity and efficiency.

The association which I head is composed of companies which have been in business for decades and whose survival as suppliers to U.S. metal working industries has depended upon the reliability of supplies, the quality of the products furnished, and the competitive price levels which imports have consistently offered to those U.S. consuming industries.

On this latter point, it is well to emphasize what Mr. Iverson alluded to this morning. We must remember that the products of the steel industry are the raw materials for many, many industries who employ literally millions of workers. For these metal working companies and their workers to survive, it is imperative that they have access to raw materials whose cost is comparable to those of our international competitors.

At the present time, transaction prices of steel in the U.S are up to $200 per ton higher than the prices in other markets of the world. This means that even under present circumstances, the U.S. metal working consumers face a severe competitive disadvantage vis-a-vis their international competitors. Since the avowed purpose of the legislation before this subcommittee is to increase U.S. prices even more, then it follows the present competitive disadvantage of these industries will be exacerbated.

The result, of course, will be cries for import protection from imports of these finished products. What in fact would be happening would be trading some jobs in the steel industry for many, many more in the metal working industry.

For purposes of putting this increased cost factor in perspective, we have estimated that the sum total of trade restrictions on steel imports, those presently in force as well as contemplated by either legislative or executive action, will raise prices of basic steel mill products an additional $100 a ton. Considering annual shipments of approximately 100 million tons, that translates into a cost increase of $10 billion.

On the best figures that are available, we conclude that these additional costs will create additional steel employment at a cost of between $600,000 and $1 million per job.

The costs incurred by the metal workers, whose jobs would be lost, are incalculable. In a colloquy this morning, the hope was expressed that the additional revenues generated by protective measures would be used by the steel companies in increased modernization and plant investment. History shows that this industry has received protection from imports in 13 out of the last 16 years and has done little to improve its competitive stance vis-a-vis producers in the rest of the world.

Mr. Iverson's example of the poor performance of U.S. industry in installing continuous casting facilities sufficiently illustrates my point.

Mr. Chairman, I am ready to answer your questions.

[The prepared statement follows:]

STATEMENT OF FERNAND LAMESCH, PRESIDENT, AMERICAN INSTITUTE FOR IMPORTED STEEL, INC.

SUMMARY

Fernand Lamesch, President of American Institute for Imported Steel, Inc. and TradeARBED, 11 West 42nd Street, New York 10036, tel: 212/921-1765, makes the following points in his testimony in the subject proceeding:

1. Imports of steel are needed by a large number of U.S. users.
2. Imports are not the cause of the U.S. industry's problems but the result of those problems.
3. The steel industry's problems stem from the failure to—

Remain cost efficient because they neglected to restructure plants, modernize equipment, contain employment costs.

Be reliable suppliers in labor negotiation years.

To build or maintain production capacity in increasingly important areas of the country.

To meet demand in some years due to insufficient capacity.

Consistently supply many American steel users with type and quality of steel product needed and to provide customers with satisfactory service.

4. Indeed, the steel producers import significant quantities of steel.
5. Import restraints will not solve these problems but will exacerbate them.
6. Import restrictions will also drive up prices of steel articles, lead to increased use of substitute materials, and result in increased imports of finished products leading to calls for protection from other sectors of the U.S. economy.

STATEMENT

Mr. Chairman, Members of the Committee, I am Fernand Lamesch, President of American Institute for Imported Steel, Inc. and President of TradeARBED of New York, New York.

At the outset I note that the Institute member companies have been doing business in the United States for decades. The company I head was established here in 1925 and most of the Institute's member companies also have been in business for many years. I mention this to counter the erroneous impression in some quarters that we importers are opportunists, who move in when times are great and retreat when markets soften. We are long term participants in the U.S. market and suffer the same reverses as U.S. producers when, as has recently occurred, steel demand falls due to a deep recession. We also prosper when demand improves, as is the case with most steel products today.

Our companies have been consistently reliable suppliers to U.S. consumers of steel mill products. This has not been an easy task in the face of the continued pressures for ever-increasing import restrictions which have been directed at us over these years, of which the legislative proposals before this Committee are a part.

Our positive role in the U.S. steel economy is attested to by the Comptroller General of the United States in his Report to the Congress of January 8, 1981. While all of the findings in that report speak to the positive role which imports play in the U.S. economy, I quote just a few:

"Differences in the ordering price are not the whole story, however. Foreign firms, we were told, guarantee their quoted prices to delivery, whereas American steel mills charge the price in effect at the time of delivery if it is different from the earlier quotation * * *.

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"The companies we interviewed frequently cited the unavailability or the restricted sources of certain steel mill products domestically, and the undependability or slowness of U.S. companies' delivery, as reasons for buying foreign steel.

* * * * * * *

"Steel buyers identified several products no longer offered by domestic mills. The problem was particularly evident in the Western United States where import penetration is more than double the national rate. West Coast companies explained that some mill products * * * [needed in that area] are produced elsewhere in the United States; however, freight costs preclude their purchase from midwestern or eastern steel mills.

* * * * * * *

"According to the buyers, U.S. mills are reluctant to roll steel to thin dimensions, partly because they have sufficient customers for the thicker products, which are less costly to produce, and partly because their mills are too old to maintain the specific tolerance for thin sheets. For example, a Pennsylvania manufacturer of heating and air conditioning components began purchasing imported thin guage galvanized coil about 1973 because none of the four U.S. producers it had been buying from could furnish quality steel for its new automated machinery. . . . He added that if they had to rely on the domestic steel industry they would go out of business.

* * * * * * *

"Undependable delivery from domestic steel mills has contributed to many U.S. firms' decisions to purchase foreign steel. A Pennsylvania manufacturer said that delivery is more dependable from half way around the world than from domestic steel mills. A large engineering and construction firm, 80 percent of whose steel is imported, explained that its projects tend to be so large and complex that time wasted by undependable delivery costs more than differences in steel prices * * *. A buyer for a Texas firm related that a U.S. mill will not reschedule an order that fails to meet specifications when it comes out of the furnace, until all other waiting orders have been filled. Conversely, foreign mills are more flexible. Many companies we contacted said that imported steel must generally be ordered further in advance but is delivered more consistently on time.

"Many of the domestic steel consumers we spoke with criticized the U.S. integrated producers' marketing attitudes. Some referred to a general 'take it or leave it' sales philosophy. The owner of a large steel service center put it like this: '* * * the overseas firms are flexible and willing to work with you. They react as if they need you rather than you needing them. The most important ingredient in this is that there is no sense of urgency by domestic firms to work with the customer * * *.'

"Several of the firms we contacted said foreign mills were more willing then U.S. propoducers to work with them in solving problems. Additionally, the foreign mills would be more willing to tailor products to customer specifications or perform additional manufacturing operations at the mill before shipment."

These findings are, of course, wholly consistent with our understanding of the U.S. steel economy and the role imports play in it. I believe the Committee will recieve testimony from a number of steel consumers who will vouch for the continued correctness of these findings of the Comptroller General.

Needless to say, we do not believe that imports of steel are seriously injuring the U.S. steel producers. Imports, as the Comptroller General put it, are a result, not a cause, of the U.S. steel producers' problems.

Before I address some of these problems, I want to put in perspective the annual volume of imports over time. Imported steel is bought by users who need such steel. When such needs are great, imports are high and vice versa. Moreover, steel is consumed in so many different and varied products that shortages leading to increased imports of a particular product may be present in the midst of a general slump, such as was the case with oil country goods in 1979-1981, and certain types of steel mill products may be in a surplus state in times of overall high demand. Steel is not a fungible commodity. Demand and supply of a particular steel article fluctuates in accordance with market conditions for the finished product.

The U.S. integrated steel producers have been experiencing a number of adversities—none of which can be blamed on imports. Most of these adverse conditions are of long standing and have resulted in a loss of efficiency and consequent higher costs vis-a-vis certain foreign producers.

We see this state of the U.S. integrated steel producers as having begun to materialize about 20 years ago. A number of factors began to manifest themselves about that time. There was a long recession at the beginning of the 1960s. Profits which had been strong in the 1950s, exceeding the manufacturing average by a significant margin, began to lag behind other major industries.

Wage costs escalated in this period. Strike threats were numerous in the first half of this period, until the no-strike employment contracts of the 1973 were negotiated. Of course, these contracts carried a *quid pro quo* of higher wages and benefits so that in recent years steel wages and benefits ran significantly above the national average.

Whereas in other countries expansion took place in the form of complete new plants, most capacity additions in the U.S. consisted of piece meal expansion of existing plants. Tacking new technology onto old plants did not permit economies in raw materials transport and handling, in internal material flows, and in equipment scale that new plants could achieve.

Most of the large steel companies displayed a cautious approach to new technology. For example, by 1963 several large firms, accounting for more than half the steel capacity, had not installed a single new unit of a new melting furnace—the BOF converter—which had been developed some 12 to 15 years earlier.

Even the last major investment effort from 1964 to 1969, did not remedy the severe structural flaws. Money was spent on hot strip mills which were combined with inadequate smelting and melting facilities.

In sum, the producers entered the 1970s unprepared to compete with their more modern competitors in the rest of the world. These years were spent in pursuing protection from competitors rather than in making the appropriate structural adjustments.

In these years there also emerged a new competitive force—the so-called mini-mills. These steel producers have been a formidable competitor both for the integrated producers and for us importers. While we do not like to lose business to these mini-mills, they are more efficient than we, despite the overvalued U.S. dollar which gives a temporary advantage to imported products.

We must ask, therefore, to what extent these current claims of serious injury due to imports are justified when they are made by companies that—

1. Failed to remain cost efficient because they neglected to restructure their plants, modernize their equipment, and contain employment costs;

2. Became unreliable suppliers in labor-negotiation years;
3. Failed to build or maintain production capacity in increasingly important areas of the country;
4. Failed to meet demand in some years due to insufficient capacity;
5. Were consistently unable to supply many American steel users with the type and quality of steel product needed and to provide customers with satisfactory service; and
6. Were themselves importers of substantial volumes of semifinished steel (slab), some 821,000 tons in 1983, and tubular products.

Imports are blamed for suppressing or depressing domestic prices and thus the profits of the integrated producers.

If over the years there had been only a negligible degree of import competition, then domestic prices would certainly have been higher. So to the extent that imports were an important factor in the marketplace, they did serve to restrain prices. But considering that domestic prices for many steel products have been significantly higher than prices in overseas markets, the answer is that imports have been able, despite a number of protectionist actions, to keep steel use from deteriorating even more than it has. The decline in competitiveness of American steel users and the poor performance in American international trade in steel-based products would have been worse than they were had imports been even more restrained than they have been.

Recent years have seen a decline in US. consumption of steel. Less steel is being used in traditional steel-contained products. Also, stronger, lighter weight steels are being used more and more in steel applications.

Steel usage has also suffered at the hands of substitute materials. Plastics, aluminum, wood, concrete, and other materials have made significant inroads in steel consumption.

It needs no elaborate discussion on my part to show that ever-increasing prices for steel would not stem the movement toward substitutes. On the contrary, higher prices would exacerbate the competitive disadvantage already being experienced by steel in a number of important uses.

Profits are also related to efficiency and to the strength of demand. Efficient American steel producers, such as Nucor and Chapparal, have indeed consistently enjoyed good returns on their investments. And they have increased their share of the U.S. market in the last few years at the expense of the integrated producers and at the expense of imports.

The investment pattern of the U.S. integrated producers is curious. After the export restraint agreements of the late 1960s were negotiated, investments fell sharply. They rose again in 1975, declined during the trigger price years, and increased in 1982 after the TPM was terminated. They seem to invest less when under the umbrella of protection than they do when exposed to import competition, as is shown in Annex A to this statement.

There is also a question of investment efficiency. Per ton of capacity added or replaced during the years 1968-83, U.S. integrated producers invested more than their major foreign competitors. But their efforts were not productive since they delayed closing marginal operations and, as a result, dissipated their funds on too many duplicate, poorly matched facilities. Furthermore, it is quite relevant here that a substantial percentage of total investment went into non-steel operations such as chemicals, plastics, financial enterprises, and oil.

There is presently an upturn in demand for steel of all types. We do see signs of the integrated steel producers making an effort to restructure and modernize their plants and to check increases in employment costs. We applaud these moves because a vital and efficient U.S. steel industry is necessary for the future of steel. If we have strong competition, we too shall have to remain on our toes to survive in a competitive environment.

We are convinced, however, that increased restrictions on imported steel will retard this process and reverse the gains made to date. Import restrictions of the kind asked for by the Petitioners will serve only to hurt U.S. steel consumption and penalize U.S. steel users and consumers of steel products. We estimate that presently effective and proposed restrictions on steel imports will increase the cost of steel in the U.S. by as much as $100 per ton, on average. While increased domestic production might lead to employment of about 10,000 additional steel workers (at a cost of $1,000,000 per job), the loss of jobs in the metal working industries will be many times 10,000.

Higher steel prices in the U.S. will increase competition from finished steel products made abroad to the detriment of the vast number of U.S. steel product fabricators and their hundreds of thousands of workers. Thus, we can expect that the plea for protection from imports of basic steel products will be joined by a much larger chorus of fabricators who will seek protection from imports of practically all finished steel products.

Moreover, as I said before, higher prices will only whet the appetites of the many producers of steel substitutes who will see an even greater opportunity to move in to displace steel.

It should be clear that we believe a better long-run solution to the integrated steel producers' problems would be less import restriction and increased competition.

Thank you, Mr. Chairman, and members of the Committee for allowing me to appear here today.

ANNEX A

Year	Import restriction	Response by U.S. steel producers
1969–71	Voluntary Export Restraint Program [VERP].	Capital expenditures plummet from $2.3 billion in 1968 to $1.4 billion in 1971. Steel prices rise. Independent mini-mills become a small factor in the U.S. market.
1972–74	Voluntary restraint arrangement [VRA]	Capital expenditures decline further to $1.2 billion; steel prices rise 30 percent; wage premiums continue to rise above all manufacturing average.
1975–77		Some integrated steel mill plant closures; campaign against imports and demands for quota legislation. New entry by mini-mills which strengthen their competitive position.
1978–79	Trigger price mechanism [TPM]	Long-awaited major restructuring on integrated mills further delayed.
1980–81	TPM	New technology such as continuous casting only slowly adopted; major diversification into nonsteel areas; wage premiums continued.
1982–84	European Community-United States steel arrangement.	Nonsteel diversification continues; significant pruchases of foreign steel by integrated producers. Minimills account for upward of 20 percent of the total U.S. steel market and are healthy and thriving.

Chairman Gibbons. I have been in Congress most of those years that you talk about, and have been on this committee or subcommittee most of those years. I have witnessed the different types of protection the steel industry has received during those times and frankly, I have been disappointed with the results. I have never supported the protection that they received but I was hopeful that it would do some good even though I didn't support it. Unfortunately it worked out just as I was afraid it was going to work out. It just meant that costs went up and nothing really happened to improve productivity.

Steel has always seemed to me to want a special deal. I can remember—and the record will reflect—that I asked the steel industry years ago in hearings such as these to please use the legal remedies that were already on the books, to try to use them, and to follow them through, and to some extent they did, but by and large they didn't. They seemed to want a special something just for steel. Well, if we have something special for steel, we are going to have to have something special for everybody. They are special in their own mind in our society, but everybody is special in their own opinion.

I have also noticed that actually imports have not in total increased a whole lot. Imports stay remarkably level. It seems to me that the rest of the market goes up and down. Is that an accurate observation on my part?

Mr. LAMESCH. Over a historic period of time it has stayed level. There is always a lag time when it comes to the statistical reporting of imports. When markets are very strong, the ordering pattern would immediately rise, but steel arrivals would often come at a time when the market had declined. But the serious impact on the market is the time the sale is made, not really when the merchandise arrives.

Often imports also are influenced by what is happening in this town. Whenever there is a threat of further protectionism, there seems to be increased buying activity.

Chairman GIBBONS. A rush to the gate, so to speak?

Mr. LAMESCH. Yes sir. It is not necessarily that the foreign producers want to sell more, but there is an intense desire of the steel consumers in this Nation to import more in order to protect themselves against shortfalls later on or perceived shortfalls.

Chairman GIBBONS. As I look at it, the impact of the minimills has been tremendous. They have gone from about 2 percent of U.S. production to about 18 percent, and that has all come out of integrated steel capacity.

Mr. LAMESCH. Unfortunately part of it has come from imports, Mr. Chairman.

Chairman GIBBONS. I look at the imports and they seem to run from 15 million tons a year to about 21 or 22 million tons a year. Over the last 10 years it has been about like that. When I look at a total U.S. steel capacity—and I am getting my recollection refreshed, it may be more accurate—but when I look at total U.S. steel sales, that is where the wide variation comes. It seems that the integrated are not able to hold their market against the minis and are losing market share there, and two, they can't hold their customers against the the imported.

Now, let's talk about imported steel. Why do your members import steel? What is the principal reason for doing that?

Mr. LAMESCH. Often the main argument given is the price, but price surely is not the sole determining factor and very often not even the most important one. Mind you, for every seller of steel there has to be a buyer, so all imported steel is purchased by the domestic metal working industry. They like, first of all, to have a competitive product. Then they like a quality product, often a quality which is not available from the domestic producers or which is not available in sufficient quantities.

Also there is the desire to not put all your eggs in one basket. Then there are regional considerations. The fact is that most integrated mills are in the northeast part of the United States, whereas much of the metal working industry is now in the South and on the west coast, and there simply is not enough production there to serve these needs. It costs a lot less to bring in steel from Europe or from Japan or from Brazil to Los Angeles than it costs to bring steel from Chicago or from Pittsburgh to the west coast. As a matter of fact, freight and shipping costs are about $100 for the domestic mills to the west coast, whereas these costs are $50 or less for foreign mills to the same area.

Chairman **Gibbons**. You referred in your direct testimony to a $200 differential—what was that price per ton differential?

Mr. **Lamesch**. I testified that currently transaction prices in the United States are often up to $200 a ton higher than the price prevailing in most of the rest of the world. And, Mr. Chairman, I emphasize that list prices are easily another $100 higher than that. My projection is that if as the requested protection were granted, pricing in this country would quickly go to the list price level, which means all other things remaining unchanged, prices would be nearly double in the United States than they are in most of the rest of the world.

These numbers are simply staggering. In part the strength of the dollar has exaggerated these discrepancies, but even the normal value for the dollar would still leave a large discrepancy.

Chairman **Gibbons**. All right. Well now, let's go to the other panel member and let's hear from him.

STATEMENT OF JOHN D. ALLAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, STELCO INC., ALSO ON BEHALF OF ALGOMA STEEL CORP., LTD., AND DOFASCO, INC.

Mr. **Allan**. Mr. Chairman, my name is John D. Allan. I am president and chief executive officer of Stelco, Inc.—the Steel Company of Canada, Ltd. I am appearing today on behalf of the Algoma Steel Corp., Ltd., Dofasco, Inc., and Stelco Inc., the three major Canadian integrated steel mills which produce 80 percent of the raw steel in Canada. However, what I will be talking about today has the support of the remainder of the Canadian steel industry.

I would like to consider my statement separately from the views of the American Institute for Imported Steel, because Canada's situation is totally different.

I appreciate this opportunity to participate in your consideration of the state of the U.S. steel industry. I am a member of the board of directors of the American Iron & Steel Institute and my career has spanned 37 years with Stelco in all facets of the business.

Let me say first that the Canadian steel industry is very similar to the U.S. steel industry. We are private enterprise companies where the bottom line is critical and where we go to the financial markets for our capital. We have integrated steel plants using iron ore and metalurgical coal, much of which comes from our joint venture mines in the United States.

We have the same customer base, particularly North American automobile companies and parts manufacturers, who have plants on both sides of the border, and we have the same union in our plants—that is, the United Steelworkers of America. No other nation can claim this similarity, thus our experience relative to the issue before the committee may have some relevance.

The same basic problems which have impacted the U.S. industry have enveloped us. The dominant one of those problems has been the decline in steel intensity in the North American market. This is largely the result of steel being used more efficiently to combat competitive material or to reduce weight—be it in cars or pipelines—to conserve energy, or reduce capital costs.

Both domestic and Canadian mills are striving to meet the challenge of the decline in steel intensity by modernizing facilities and developing lighter, stronger steels that can compete favorably, but at the same time, add value to our products.

The steel intensity decline, plus the past recession, combined to batter financially the steel industries in both countries and affected our ability to keep our employees on the job.

Imports, of course, are another factor compounding the problems facing the United States and Canadian steel scene. With demand down worldwide and with aggressive expansion of steel producing facilities in developing countries, the open markets of the United States and Canada—and let me stop there, Mr. Chairman. A lot of people in the United States think that the United States is the only open market. We have an open market in Canada, and as a result, both markets are focal points for export drives, particularly from government owned producers.

Although the import volume of steel into Canada is not as high as the United States as a percent of consumption, nevertheless, we encounter the same types of imported steel products from the same source countries and the same unfair trade practices. The harm of imports we contend stems from the dumping and subsidization involved.

Although we in Canada are not always satisfied with the speed, retroactivity, or penalties of the Canadian antidumping mechanisms, nonetheless, the Canadian steel industry relies on its Federal Government to pursue aggressively the cases of dumping we present. The world steel producers know and understand the vigor and perseverance of Canadian mills and the Government in this regard.

The focus of the U.S. steel industry and the Federal Government, we submit, should be on unfairly traded imports with vigorous enforcement of the trade laws. The only way to truly test the competitiveness of the Canadian or the U.S. steel industries is to take unfair trade practices off our backs.

However, if Congress decides to proceed with the proposed quota legislation, we in Canada, as fair traders and partners in the North American market, request that Canada be excluded from the quota by amendment to the proposed legislation. To substantiate that this is not an unreasonable request, let me report six key points:

As Senator Heinz noted in his statement introducing S. 2380, "There are a number of countries that do not dump or subsidize. Canada does not. * * * " Because Canadian mills are fair competitors, market forces and existing U.S. trade laws serve as adequate safeguards for the domestic industry.

Two, with the exception of semifinished steel ordered by U.S. producers, the Canadian steel industry shipments to the United States have remained relatively stable during the last 5 years. They have ranged between 2 to 2½ percent of domestic consumption. Such major domestic steel mills as Republic, National, Jones & Laughlin, Lukens, buy semifinished steel from Canadian producers. In 1983, semifinished purchases exceeded 600,000 tons, and this accounted for the surge of imports from Canada that year.

How can domestic mills complain about shipments from Canada when in fact they order them and profit by them. It is beyond us how the ITC can find injury from imports in this class of product when it is bought and used by the various U.S. producers claiming the injury.

Three, and this is a very important item, the Canadian steel industry purchases goods and services in the United States, the value of which exceeds the value of steel exported to the United States. Canadian mills, for example, purchase over 95 percent of their metallurgical coal needs, substantial quantities of iron ore, equipment, refractories, and alloying agents from the United States. We estimate that the value of the 1983 U.S. coal and ore shipments to Canada from the States of Kentucky, West Virginia, Minnesota, and Michigan, at more than 600 million U.S. dollars, compared to 212 million U.S. dollars, worth of Canadian coal and ore exports to the United States during the same period.

Algoma, Dofasco, and Stelco alone estimate that they expend at least 1.25 U.S. dollars in the United States for every U.S. dollar of steel sold in this country. Therefore, the U.S. job content of 80 percent of the raw steel production in Canada is significant. No other country exporting steel to the United States can make this claim.

Canada and the United States are each other's best and largest trading partner. In fact, two-way trade between the United States and the Province of Ontario, Canada, is greater than trade between the United States and Japan.

This trading relationship extends to steel, where each country is the other's largest export market. In fact, Canada is virtually the only open market for United States steel mill exports. Consequently, American steel exports to Canada represent a substantial proportion of total Canadian consumption and nearly 50 percent of all Canadian steel imports, currently running at an annualized rate of 600,000 tons. From 1981–83, the United States share of Canadian supply averaged more than 6.4 percent, compared with an average of 2.6 percent Canadian share of United States supply.

Five, imposition of quotas on specific categories of steel products from Canada would have a disproportionate disruptive impact on Canadian steel shipments to the United States because of the small size of individual shipments of Canadian steel to the United States, the short notice between order and delivery, and changing production specifications of U.S. equipment manufacturers, such as the automobile companies. Our experience at the border under the limited specialty steel quota portends massive congestion and dislocation if H.R. 5081 is applied to Canada.

It is interesting to note, while Mr. Iacocca of Chrysler endorses steel import quotas, it has been confirmed to me through Mr. Closs, president of Chrysler, Canada, that from Chrysler's point of view, a quota should not apply to Canadian sourcing.

Finally, Ambassador Brock, in his recent testimony before the Senate Finance Committee on International Trade, pointed out that countries like Canada would retaliate if quotas were imposed. We believe our Government with public support would react to alleviate any loss of business imposed by quotas on the Canadian steel industry.

In summary, Mr. Chairman, the Canadian situation relative to this issue is unique and I hope warrants serious consideration by Congress.

We believe the Fair Trade and Steel Act of 1984 should be amended to exclude Canada because of three important items: Our open market, which absorbs a significant amount of U.S. steel; two, our acknowledged fair trading in steel; and finally the high U.S. contents in Canadian steel, be it for our own domestic use or for export to the United States.

I have always been impressed with the sense of fair play exhibited by the United States and its citizens. I would have thought fair play in this case means if a country plays by the rules, it should not be penalized. If this is not the case here, then a much more honest approach would be to rename the bill.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, sir.

Of course, there are many things in your statement that I agree with. One, I agree that what our Government should be doing and what the steel people should be doing is vigorously pursuing their rights under our existing laws, our countervailing duties law, antidumping laws, and they shouldn't be compromising them out with arrangements such as they did with the European Community. I think that was a mistake.

Two, I think you are correct in that if this bill is considered by Congress, it should contain a provision exempting Canada from it. The economic conditions in Canada are very similar to the economic conditions of the United States. The rules that control the game are very similar. I think it would be a mistake to impose the structures of this bill upon Canada. Of course, such an exemption would apply only to Canadian steel and not to steel that was bought from any other place.

It would be hard to classify me as a great friend of this piece of legislation, but if it should finally become law, I think it should contain this kind of exemption for Canada.

Mr. ALLAN. Thank you.

[The prepared statement follows:]

STATEMENT OF JOHN D. ALLAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF STELCO, INC., ALSO ON BEHALF OF ALGOMA STEEL CORP., LTD., AND DOFASCO, INC.

Mr. Chairman and members of the Subcommittee, my name is John D. Allan. I am President and Chief Executive Officer of Stelco Inc. (The Steel Company of Canada, Limited). I am appearing today on behalf of The Algoma Steel Corporation Limited, Dofasco Inc. and Stelco Inc., the three major Canadian integrated steel mills which produce 80% of the raw steel in Canada. (Raw steel production in Canada was 14 million tons in 1983, down from a peak of 17.5 million tons in 1979.) Please consider my statement separately from the views of the American Institute for Imported Steel because Canada's situation is totally different from the interests represented by the AIIS. I appreciate this opportunity to participate in your consideration of the state of the U.S. steel industry. I am a member of the Board of Directors of the American Iron and Steel Institute and my career has spanned 37 years with Stelco in all facets of the business.

The steel industries in our two countries are very similar and have some degree of integration. We have joint ventures in Canada and the United States for the production of iron ore and metallurgical coal.

Both markets are open to imports. In fact, Canada is the largest and only significant export market for American mills and the United States is the largest export market for Canadian mills. Both industries are privately owned and profit oriented and raise capital in the financial markets. Both face the same pressures of unfairly traded steel imports from steel producers around the world because of excess capacity. We buy and sell semi-finished steel and conversion services across a border that is unique in the world. We have the same Union, The United Steelworkers of America. For these reasons, I ask that the Subcommittee consider my comments as those of a friend and supporter of the domestic mills and as those of a spokesman of an industry that faces precisely the same economic forces as the U.S. domestic mills.

One of the dominant factors which has impacted on the well-being of the steel industries in both the U.S. and Canada over the past five years in particular has been the decline in steel intensity in North America; i.e., steel consumption divided by real GNP. This is largely the result of steel being used more efficiently to combat competitive materials or to reduce weight be it in cars or pipelines to conserve energy or reduce capital costs.

A skyscraper next to Stelco's offices in Toronto that is currently under construction uses 17 pounds of steel per square foot while Stelco's building, which has a similar design and height and was built only 14 years ago used 34 pounds per square foot. This reduction in steel is the result of new, lighter steel and improvements in engineering and construction technology.

I could give numerous other examples of declines in steel intensity but the point is U.S. domestic mills, Canadian mills and the AISI all recognize the decline in steel intensity as the dominant force shaping our economic well-being. Both domestic and Canadian mills are striving to meet the challenge of the decline in steel intensity by modernizing facilities and developing lighter, stronger steels value to our products hopefully.

The steel intensity decline, plus the past recession, combined to batter the steel industries in both countries financially as well as affecting the ability to keep our employees on the job.

Imports, of course, are another factor compounding the problems facing the U.S. and Canadian steel scene. With demand down world-wide and with aggressive expansion of steel producing facilities in developing countries, the open markets of the U.S. and Canada are the focal point for export drives, particularly from government-owned producers. Although the import volume of steel into Canada is not as high as the U.S. as a percent of consumption (currently 11 percent), nevertheless we encounter the same types of imported steel products from the same source countries and the same unfair trade practices. The harm of imports we contend stems from the dumping and subsidization involved.

Although we in Canada are not always satisfied with the speed, retroactivity or penalties of the Canadian anti-dumping mechanisms, nonetheless, the Canadian steel industry relies on its Federal Government to pursue aggressively the cases of dumping we present. The world steel producers know and understand the vigor and perseverance of Canadian mills and the Government in this regard.

The focus of the U.S. steel industry and the U.S. government we submit should be on unfairly traded imports with vigorous enforcement of the trade laws.

The only way to truly test the competitiveness of the Canadian or the U.S. steel industries is to take unfair trade practices off our backs.

Our major concern about the proposed quota legislation is that it penalizes fair traders, such as Canadian Mills, for the adverse effects of unfairly traded imports from other countries. However, if Congress decides to proceed with the proposed quota legislation, we in Canada, as fair traders and partners in the North American market, request that Canada be excluded from the quota by amendment to the proposed legislation. To substantiate that this is not an unreasonable request, we submit the following reasoning:

1. CANADIAN STEEL IS FAIRLY TRADED

The objective of the Fair Trade in Steel Act of 1984 is to remedy the effects of subsidized and dumped steel imports. The April 26, 1984 Testimony by House Steel Caucus representatives before the House Ways and Means Trade Subcommittee made that point clear. Steel from Canada is fairly traded in the United States. As Senator Heinz noted in his statement introducing S. 2380. "There are a number of countries that do not dump or subsidize. Canada does not * * *."

Canadian mills opened their books to the U.S. Department of Commerce for preclearance under the trigger price mechanism and were found to be selling at fair prices. Moreover, with the exception of one small investigation that ended in a suspension agreement, Canadian steel shipments to the United States have not been subject to anti-dumping or countervailing duty orders. Because Canadian mills are fair competitors, market forces and existing U.S. trade laws serve as adequate safeguards for the domestic industry. Congress should seek to encourage such fair trading practices. Therefore, should Congress enact H.R. 5081, the proposed legislation should be amended to exclude Canada as a country that trades fairly in steel and maintains an open market for U.S. steel mill exports.

2. TWO-WAY UNITED STATES-CANADA STEEL TRADE

U.S. and Canadian steel production is interrelated, with mutual supply of semi-finished products, joint mineral extraction agreements and technology transfers. Often a U.S. or Canadian steel mill will experience a temporary shortage of raw steel. Steel mills on both sides of our common border make it a practice to supply semi-finished products to assist other companies in meeting such temporary demand surges, as well as temporary shortages due to maintenance requirements or to satisfy longer term demand not sufficient to justify the addition of new melting capacity.

Such major domestic steel mills as Republic, National, Jones & Laughlin, Lukens, Sharon, Cyclops, Rouge, Empire Detroit and McLouth buy semi-finished steel from Canadian producers. And I might add that, in general, the U.S. mills come to us—we do not solicit these sales in the United States. In 1983, semi-finished purchases exceeded 600,000 tons. This trade is bilateral. During the last five years, the flow of semifinished steel has often been in favour of the United States rather than Canada. On an annual basis, the net balance of semi-finished shipments varies considerably, depending on changes in product mix and local capacity shortfalls on both sides of the border.

Included in the semi-finished trade are substantial amounts of Canadian semi-finished steel shipped to U.S. Mills for "conversion" (i.e., rolling into hot bands) and reshipment to Canada. Conversions average approximately 100,000 tons per year during 1981 to 1983. This Canadian steel never enters the U.S. market but employs American workers in domestic rolling mills.

With the exception of semi-finished steel ordered by U.S. producers, the Canadian Steel industry's shipments to the United States have remained relatively stable during the last five years. They have ranged between 2.0 percent to 2.5 percent of domestic consumption. The AISI's assertion that Canadian exports increased 20 percent in 1983 is misleading because it includes semi-finished steel and conversion re-exports. Without these factors, imports increased by only 4.8 percent. Thus, there has been no surge of finished Canadian steel to the United States, and any increase in semi-finished steel shipments are to fill orders from U.S. mills. Thus U.S. mills directly benefit from Canadian shipments rather than incurring any injury as they do from imports of unfairly traded steel. How can domestic mills complain about shipments from Canada when, in fact, they order them and profit from them?

3. U.S. COAL AND IRON ORE IN CANADIAN STEEL

The Canadian steel industry purchases goods and services in the United States, the value of which exceeds the value of Canadian steel exported to the United States. Canadian mills, for example, purchase over 95 percent of their metallurgical coal needs, substantial quantities of iron ore, equipment, refractories and alloying agents from the United States. We estimate the value of 1983 U.S. coal and ore shipments to Canada at more than USD 750 million compared to the USD 212 million worth of Canadian coal and ore exports to the United States during the same period. Algoma, Dofasco and Stelco alone estimate that they expend at least USD 1.25 in the United States for every USD 1.00 of steel sold in this country. For this reason, quotas on Canadian steel would have an adverse effect on the U.S. coal and iron ore industries as well as on other U.S. suppliers to the Canadian Steel industry.

4. UNITED STEELWORKERS UNION IN BOTH THE UNITED STATES AND CANADA

The United Steelworkers of America is comprised of both U.S. and Canadian steelworkers. There are approximately 145,000 members of the United Steelworkers of America in Canada. Approximately 40,000 of these members work in the Canadian steel companies whose producers are covered by this proposed legislation.

5. CANADA IS AN OPEN MARKET AND THE LARGEST EXPORT MARKET FOR U.S. MILLS

Due to proximity, as well as political, social and economic similarities, Canada and the United States are each other's best and largest trading partner. In fact, two-way trade between the United States and the Province of Ontario, Canada, is greater than trade between the United States and Japan. In 1983, Canadian-U.S. trade approached USD 89 billion.

This trading relationship extends to steel, where each country is the other's largest export market. In fact, Canada is virtually the only open market for U.S. steel mill exports. Consequently, American steel exports to Canada represent a substantial proportion of total Canadian consumption and nearly 50 percent of all Canadian steel imports currently running at an annualized rate of 600,000 tons. From 1981-1983, the U.S. share of Canadian supply averaged more than 6.4 perent compared with an average of 2.6 percent Canadian share of U.S. supply.

6. CANADIAN STEEL DOES NOT DISRUPT THE U.S. MARKET

Imports to the United States from many third world countries arrive in large, speculative bulk shipments at steel service centres. Notice of the expected arrival of such shipments often severely disrupts the supply parttern and price structure of the U.S. market. Canadian steel arrives in small truck or rail car shipments to satisfy specific requirements of U.S. customers, particularly original equipment manufacturers ("OEM's") in the automobile and heavy equipment industries.

7. ANY QUOTA SYSTEM WOULD PENALIZE CANADA AND U.S. MULTINATIONALS CONDUCTING BUSINESS ON BOTH SIDES OF THE BORDER

Because of the small size of individual shipments of Canadian steel to the United States, the short notice between order and delivery, and changing production specifications of U.S. Original Equipment Manufacturers such as the automotive companies, the imposition of quotas on specific categories of steel products from Canada would have a disproportionately disruptive impact on Canadian steel shipments to the United States. If a Canadian producer were required to structure its sales to the United States in accordance with its particular product-by-product share of Canada's quota, the Canadian producer could not respond to the changing product demands of U.S. OEM's and the other U.S. customers in a timely fashion. Quota administration and, where necessary, reallocation would be excessively time-consuming. For this reason, a quota system would delay and disproportionately disrupt Canadian shipments and, as a result, the operations of our U.S. customers. The same cannot be said for U.S. imports from the offshore countries that consist of boatloads of standard products that are sold by distributors and service centres. While offshore might have one customs entry per month, a Canadian mill might have dozens of truck load shipments per month. Our experience at the border under the limited specialty steel quota portends massive congestion and dislocation if H.R. 5081 is applied to Canada.

It is interesting to note, while Mr. Iacocca of Chrysler endorses steel import quotas, it has ben confirmed to me through Mr. Closs, President of Chrysler Canada that, from their point of view, quotas should not be applied to Canadian sources.

8. DISCRETION BY THE SECRETARY OF COMMERCE

For the reasons given above, Canadian steel, which is fairly traded, should not be covered by the Fair Trade in Steel Act of 1984. The Bill's Grant of Discretion to the Secretary of Commerce to allocate quotas among countries is insufficient to ensure that U.S.-Canadian steel trade will not be impaired. Moreover, Canadian mills could actually be penalized for having traded fairly during the quota-setting base period leaving Canada with a smaller quota than the countries that are the cause of the U.S. mills' problems. The passage of proposed steel quota legislation, no matter how much discretionis vested in the Secretary of Commerce, will cause uncertainty and disruption in U.S.-Canadian trade that has been not only fair, but also beneficial to the U.S. steel industry.

9. RETALIATION

One last point should be made and that is retaliation. Ambassador Brock, in his recent testimony before the Senate Finance Committee on International Trade pointed out that countries like Canada would retaliate if quotas were imposed. We believe our government would react to alleviate any loss of business imposed by quotas on the Canadian steel industry. One such move might be to curtail U.S. domestic mills' exports to Canada (600,000 tons annually); thus, any domestic "gains" from quotas on Canadian steel would be offset by losses in export sales. In short, quotas will be costly because of retailiation and those costs will be principally borne by supporters of the proposed Quota Legislation.

Mr. Chairman, I urge that the Fair Trade in Steel Act of 1984 be amended to exclude Canada. Why? Because Canada provides an open market for U.S. domestic steel exports, and the Canadian steel industry believes in and practices fair trade as well as provides in its U.S. exports a U.S. job content not found in any other nation's exports of steel.

Chairman GIBBONS. I want to commend you for coming here and making a very fine statement about the Canadian position and I assure you and through you, that we want to be good neighbors and fair neighbors, too.

Mr. ALLAN. Thank you.

One comment. We feel very close to the American industry. We know what they are going through. We are going through the same sort of thing. We have a job to do, we have to pull up our socks. We have to modernize and we have to compete. That is our objective and we are trying to do it.

Chairman GIBBONS. Well, you know, I wish there were some other solution to the problem, but frankly, I don't foresee it.

Mr. ALLAN. Just a tough game we are in.

Chairman GIBBONS. This country years ago, indeed, lots of countries, have experimented with trying to isolate themselves from competition. We do try to isolate ourselves from unfair competition and subsidized competition, but I know of no way we can really isolate ourselves from the other competition. We do that at our own peril.

Thank you.

Mr. ALLAN. Thank you very much.

Mr. LAMESCH. Thank you.

Chairman GIBBONS. Our next panel comes from the Cold Finished Steel Bar Institute, Mr. William H. Alexander, who is chairman, and from the Specialty Tubing Group, Mr. Richard Weiler.

Let me warn you gentlemen that the bell is going to go off probably while you are talking and I will have to run over and vote, but I will come right back. We will be voting on one crucial amendment to the immigration bill in about 15 or 20 minutes, so go right ahead.

Let's see, Mr. Alexander, your names appears first, so we will allow you to go ahead.

STATEMENT OF WILLIAM H. ALEXANDER, CHAIRMAN, COLD FINISHED STEEL BAR INSTITUTE, ACCOMPANIED BY MURRAY BELMAN, COUNSEL

Mr. ALEXANDER. Thank you, Mr. chairman. My name is William Alexander, and I am chairman of the Cold Finished Steel Bar Institute, an association of 22 nonintegrated producers of cold finished bars. This is our counsel, Murray Belman.

Cold finished steel bars are made by processing hot rolled bar or wire rod, usually by drawing it through a carbide die. Our product is used in a vast variety of applications, generally in the form of a bar or as a feedstock for screw machine products.

Cold finished bars are found in virtually every product with moving parts—all types of machinery and equipment and in cars, trucks, motors and machine tools, and they are essential in numerous items of defense ordnance.

Most of America's finished bar producers make no other steel product; these nonintegrated companies account for about two-thirds of domestic production. The industry has facilities in 19 states and normally imploys over 10,000 workers. Most producers are relatively small companies, often family owned. 1982 and 1983 were trying years for the American cold finishing industry. Shipments fell off to levels not experienced since the Great Depression. Layoffs exceeded 50 percent of the workforce. Monthly production averaged only 43 percent of capacity in 1982, hitting a low of 32 percent in December of that year. Production increased slightly during 1983, but by then, eight facilities were permanently closed, one each in California, Texas, Michigan, New Jersey, Alabama, and South Carolina, and two in Pennsylvania. Several companies remain in precarious financial condition.

Despite these problems, the American cold finished bar industry has not sat on its hands. Wherever capital has been available, it has been plowed into new machinery and equipment. I believe that investment of this kind has exceeded the industry's operating profits over the last decade.

In stark contrast to American producers, foreign cold finished bar suppliers were scarcely fazed by the declining American market in 1982 and 1983. Imports in each of those years exceeded the 10-year average for 1974–83. As a result, market penetration has increased to all time highs, more than twice historical levels. Imported product continues to be offered well below the Commerce Department's former trigger prices, that is, below their ostensible cost of production.

American producers have been victimized by imports during a period of true depression in the industry. Our shipments were reduced, unemployment was intensified, and losses were magnified by irresponsible actions of foreign suppliers. Restraint is plainly required.

Before turning to our specific recommendations, I should like to make some general observations about our steel industry.

We believe that a viable American steel industry is essential to a healthy economy and our national security. We in the cold finished bar industry depend upon the availability of a broad range of steel products domestically sourced. We remember that in 1974, during a worldwide steel boom, foreign suppliers virtually disappeared from the American market. Other steel users should also be aware that the only truly dependable source of steel is our domestic industry.

Given the fundamental importance of our steel industry to our nation, we find it hard to understand the relationship between the producers and our Government over the first 30 odd years. Throughout this period, the industry has been called upon to meet Government demands—expand capacity in the fifties, modernize in the sixties, clean up the environment in the seventies—while being pressured to keep prices down. As a result, profits have been squeezed and internally generated capital constricted.

There have been positive developments—outmoded facilities have been closed, companies are streamlining and rationalizing their operations, and labor costs have been reduced—but serious problems and questions remain. The domestic industry continues to suffer from a shortage of capital to modernize further. Traditional steel markets are uncertain. There is lack of a consistent and clear Government policy toward the steel industry.

Overhanging all of these questions and, indeed, a basic issue for the future of the American industry is the question of imports. The hard reality is that the United States is today the only major open market for steel in a world of very substantial excess capacity. That is a fact, and its implications must be confronted.

Up to now, the Government and the domestic steel industry have relied on the trade laws to deal with import problems. While these laws can and do serve a useful purpose in many situations, there are serious questions whether they can handle the problems caused by steel imports. Antidumping and countervailing duty suits are expensive and complicated. Those costs are simply beyond the financial resources of most cold finished bar producers.

But even successfully prosecuting a trade case is no guarantee of adequate relief. Last week's decision by the ITC in the section 201 action on steel is a good example of this problem. The Commission found that imports were increasing and that they were injuring the domestic cold finished bar industry. However, the decision aggregated cold finished bar with all other kinds of bar in determining that imports were not a substantial cause of injury.

Lumping cold finished bar with these other products made no economic sense, since the products, markets, import penetration, and other industry characteristics are substantially different. The Commission's failure to recognize these distinctions will now mean that cold finished bar producers could remain naked before a further onslaught of imports.

To survive as a critical part of our national economy and defense establishment, the steel industry must have a respite from the market disruption caused by surging imports. That kind of relief can be developed only on a comprehensive basis, and it is for this reason that we applaud H.R. 5081.

In return for product quotas limiting overall imports to about 15 percent of apparent domestic consumption, the bill would require the steel industry to invest its cash flow in plant modernization and development. We in the cold finished bar industry would welcome such a bargain with the Government.

We understand that the administration opposes quota legislation, principally because they believe it would result in retaliation by other countries. We believe that there exists a straightforward solution to the administration's concern.

I refer to the possibility of an international, multilateral agreement on steel imports to the United States. We already have in place a very important element in such an agreement, our arrangement with the European Communities. We believe that the Japanese would be willing to formalize and particularize the gentleman's agreement reached last year. We also understand that a number of other supplying countries would be happy to undertake similar restraints. In fact, South Africa and Mexico have already imposed unilateral limits on their exports. Thus, a comprehensive approach to steel import problems is well within reach.

Some legislation would still be necessary. First, we understand that, for a number of supporters of H.R. 5081, the quid pro quo of industry investment is critical.

Second, there should be some assurance that the restraints embodied in an international agreement reflect the levels considered appropriate by Congress.

Finally, there is a need to assure that negotiations for an agreement are conducted and concluded promptly.

In short, we believe that there is a compromise that would meet the administration's concerns regarding H.R. 5081.

On one point, however, there should be no compromise. We strongly believe that the Congress should insist upon a comprehensive approach to steel imports, one that will give the entire American industry the necessary respite from dumped, subsidized, and predatory imports and one that will permit the necessary investment and rationalization to allow us to become competitive with all foreign suppliers.

Thank you.

[The prepared statement follows:]

STATEMENT OF WILLIAM H. ALEXANDER, CHAIRMAN, COLD FINISHED STEEL BAR INSTITUTE

Thank you Mr. Chairman for this opportunity to appear before the Committee during its consideration of the health of the American steel industry. My name is William Alexander, and I am Chairman of the Cold Finished Steel Bar Institute. I am also Vice President of Standard Steel Specialty Company, one of the 22 nonintegrated producers of cold finished bars that are members of the Institute. In addition, nine integrated steel producers that supply the raw material for cold finished bars are associate members.

COLD FINISHED STEEL BARS

Cold finished steel bars ("CFSB") are made by processing hot rolled bar or wire rod, usually by drawing the product through a carbide die. The processing imparts four characteristics to the bar: a clean, bright surface, improved strength and machinability, high dimensional accuracy, and exceptional straightness.

CFSB are used in a vast variety of applications, but are generally found either in the form of a bar or as a feedstock for screw machine products. Bar configurations include shafts for motors and hydraulic systems, structural supports, tools and other applications where a strong, smooth bar shape is required. In the second application, CFSB are fed into screw machines, which cut them to form cogs, gears, fittings, etc., that are used as components in mechanical devices.

It has often been said that CFSB are found in virtually every product with moving parts. They are certainly found in all types of machinery and equipment used by industry and are especially necessary to the production of cars, trucks, motors and machine tools. CFSB are absolutely essential in most items of defense ordnance, especially equipment requiring alloy steels for critical applications.

AMERICA'S CFSB INDUSTRY

Most of America's CFSB producers make no other steel products; these nonintegrated companies account for about two-thirds of domestic production. The industry has facilities in 19 states and normally employs over 10,000 workers. Most producers are relatively small companies, often family owned.

1982 and 1983 were trying years for the American CFSB industry. Shipments fell off to levels not experienced since the Great Depression. Layoffs exceeded 50% of the work force. Monthly production averaged 43% of capacity in 1982, hitting a low of 32% in December of that year. Production increased only to 52% of capacity during 1983. Eight facilities were permanently closed during that time, one each in California, Texas, Michigan, New Jersey, Alabama and South Carolina, and two in Pennsylvania. All others worked short shifts. A number of companies remain in precarious financial condition.

Despite these problems, the American CFSB industry has not sat on its hands. Wherever capital has been available, it has been plowed back into new machinery and equipment. New draw benches, annealing furnaces, straighteners and other equipment have been installed by CFSB producers over the past decade, and these improvements have significantly modernized our industry and reduced our unit costs. My own belief is that investment of this kind has exceeded the industry's operating profits over the last decade.

IMPORTS

The United States Government has long recognized the particular sensitivity of the American CFSB industry to foreign imports. CFSB were the only steel mill product specifically covered in the 1972 Voluntary Restraint Arrangement undertaken by Japan and the EEC. In 1975, the product was found to be "import sensitive" and thus not subject to preferential duties for less developed countries. Finally, in the "Tokyo Round" of Multilateral Trade Negotiations, duties were reduced less for CFSB than for any other steel product included.

In stark contrast to American producers, foreign CFSB suppliers were scarcely fazed by the declining American market in 1982 and 1983. Imports in each of those years exceeded the ten-year average for 1974–1983. As a result, market penetration has been at all time highs, more than twice the historic levels. The domestic market for CFSB has begun to recover, yet imports continue to be a substantial problem. January imports hit 17.8% of apparent domestic consumption, a figure well above the previous high, and foreign shipments through April continue to take a record 16.4% share of our market. Imported CFSB continue to be offered well below the Commerce Department's former trigger prices, i.e., below their ostensible cost of production. This surge of low cost imports has blunted the benefits of the economic recovery.

The figures for penetration of the American market understate the impact of foreign steel on American CFSB producers. Our domestic market for CFSB has been seriously eroded by increased imports of finished products like autos, farm and construction equipment, machine tools and screw machine products. When combined with the direct imports of CFSB, the actual foreign penetration of the domestic market is much greater.

Traditionally, the principal supplier of CFSB to the United States has been Japan. For the years 1976 through 1980, Japan supplied about 60% of total imports. However, for 1981 through 1983, the Japanese share of total imports declined to a little over one-third. Initially, this decline was due to lower imports from Japan, coupled with a rapid increase in imports from the EEC countries and Spain. More recently, however, Japanese tonnage has increased, while shipments from other traditional suppliers have not significantly abated. A growing share of total imports is coming from nontraditional sources. Countries like Brazil, Spain, Korea and South Africa have entered the market in recent years; often, their products are sold at plainly dumped or subsidized prices.

Thus, from our point of view, the import problem has been growing. We are not asserting, nor have we ever contended, that the U.S. market should be denied to foreign suppliers. But we do believe that American CFSB producers have been victimized by imports during a period of true depression in the industry. Shipments were reduced, unemployment intensified and losses magnified by irresponsible actions of foreign suppliers. Restraint is plainly required.

Before turning to our specific recommendations on steel problems, I should like to make some observations on the state of the other parts of the steel industry.

THE AMERICAN STEEL INDUSTRY

I should begin by revealing the basic premise of these comments: we believe that a viable American Steel Industry is essential to a healthy economy and our national security. We in the CFSB industry depend upon the availability of a broad range of steel products domestically sourced. We all remember that in 1974, during a worldwide steel boom, foreign suppliers virtually disappeared from the American market. Other steel users should also be aware that the only truly dependable source of steel is our domestic industry.

Given the fundamental importance of our steel industry to our nation, we find it hard to understand the relationship between the producers and our government over the last 30-odd years. For example, during the 1950's, the government urged the industry to undertake a major expansion of capacity, even though many were skeptical that demand would grow so rapidly. At a great expense of capital, this expansion was carried out and led to substantial overcapacity by the end of the decade. More importantly, the timing of this increased construction led to the installation of many obsolescent open hearth furnaces, instead of the new basic oxygen process.

During the 1960's, the domestic industry confronted the need to update those steel-making facilities and under-took a rapid conversion to the basic oxygen process. These steps were carried out with two serious handicaps: substantial government pressure to keep prices down and increasing import competition. As a result, the capital resources of the industry were seriously depleted by the end of the decade.

The 1970's began with price controls, which were followed by a serious recession in the middle of the decade. Recovery was all too brief, as the industry was confronted with massive imports being sold here at less than their cost of production abroad. As a result, profits were squeezed and internally generated capital was further constricted. All too often, much of the capital that was available was required for pollution control devices, which added to per unit costs. As a result, there was too little capital available for the improvement of productivity through new technologies like continuous casting. Tax incentives were of little use to steel companies enjoying only marginal profits.

The 1980's have offered no relief. In addition to the steel industry depression, highly subsidized imports and a proliferation of foreign suppliers have converged to weaken the industry further.

This is not a happy story for the steel industry, no more for the government. However, there have been positive developments, ones that should be encouraged by national policies:

A number of outmoded facilities have been closed, and more modern plant and equipment is being consolidated.

Companies have streamlined their operations substantially.

Mergers and other ways to rationalize production are being explored.

Labor costs have been reduced by concessions and, unfortunately, by lay-offs of hourly and salaried employees. These reductions have made a more competitive American industry, but at a cost to the economy at large. For we should not forget that unemployed workers change from taxpayers to revenue recipients.

These developments are all clear plusses. Nonetheless, serious problems and questions remain. The foremost is that the domestic industry continues to suffer from a shortage of capital to modernize further. Given present pricing and profit levels, investors are not certain that steel is the best place to put their capital. A second serious problem is uncertainty in traditional steel markets. The automotive industry will undoubtedly use less steel over the next years, but other markets are even more speculative. For example, the construction industry will be particularly sensitive to interest rates; the farm equipment industry will depend on the relative value of the dollar; and a good deal of the market for steel during the rest of the 1980's will depend on national policies for repairing and rebuilding our highway infrastructure. I might add that one clear problem is the lack of a consistent and clear government policy towards the steel industry. The various views of the several agencies on merger policy and imports bespeak a lack of direction that is inconsistent with true concern about the health of the American industry.

Overhanging all of these questions and, indeed, a basic issue for the future of the American steel industry is the question of imports. As I remarked earlier, our Institute has never taken the position that the United States market should be closed to foreign steel. We understand the need to balance our own exports with purchases from other countries, and we are aware of the ned of many less developed countries to earn the hard currencies critical to their own survival.

At the same time, the hard reality is that the United States is today the only major open market for steel in a world of very substantial excess capacity. This is a fact, and its implications must be confronted. One such implication is that every foreign producer that makes more steel than it can sell at home will think first of the United States as a place to market the excess. Where the foreign industry is in economic difficulty, government subsidies are often extended to assist in the exporting process. Where the foreign producer is in a developing country, it is likely to be pressured to sell abroad at virtually any price, simply to earn the foreign exchange required to meet international debt obligations.

The result of these pressures is more and more steel coming to the United States, very often at prices well below the cost production.

These imports have been a constant cause of disruption of the American market. First, there is a continuous downward pressure on prices, usually more pervasive than the volume of imports in question. Secondly, because of the extensive import penetration, the capacity utilization rate of American producers is substantially reduced, a process that further cuts into profitability. In short, dumped and subsidized imports coming from numerous sources in ever increasing amounts make it impossible for the United States industry to assemble the capital it needs to become more modern and competitive.

THE REPONSES SO FAR

Until the present, both the government and the domestic industry have relied on the procedures of the trade laws to deal with the import situation. Our trade laws were designed to protect American industries from unfair trade practices and injurious imports. Not surprisingly, those laws have been employed in a very large number of cases involving steel imports. In fact, according to the Commerce Department, more than 160 actions have been brought by the steel industry in the antidumping and countervailing duty areas alone since January, 1982.

These laws are necessary to deal with certain import practices, and they can and do serve a useful purpose in most situations. However, experience raises serious questions whether the problems of steel imports can be handled by laws directed at unfair trade practices:

1. Antidumping and countervailing duty suits are expensive and complicated, especially when a variety of suppliers and products is involved. The cost of manning such a case, hiring outside consultants, developing data and presenting it to agencies and tribunals is a heavy economic burden, even for large integrated producers. Those costs are simply beyond the financial capability of most CFSB producers.

2. Even after successfully prosecuting a trade case, securing adequate relief is quite speculative. Relief can be aborted by actions of the Executive Branch or agreement with the foreign countries or producers involved. Those measures have not worked well:

Dumping cases brought in 1977 were withdrawn with the imposition of the "trigger price mechanism" by the Treasury Department. Within two years, the trigger prices were being evaded on a vast scale. Not long thereafter, the system fell of its own weight.

CFSB were a product included in the countervailing duty suits brought against European producers in 1982. The settlement of those suits placed limits on the raw material for CFSB but did not include a specific provision for the end product itself. The agreement created the economic incentive for European producers of hot rolled bar to convert their product into CFSB and send it to the United States without limitation. This serious threat of diversion continues.

In 1983, the AISI brought an action against Japan under Section 301 of the Trade Act of 1974 for relief from unfair trade practices. To settle that dispute, Japan undertook voluntary restraints in 1983, but without any express limitations or benchmarks. Since that undertaking was made, CFSB imports from Japan have increased sharply, running more than 60% ahead of the 1982 levels. The market penetration of Japanese imports has increased even more rapidly.

Subsidy charges against Brazil were settled in 1982 by that country's agreement to impose an offsetting tax on its exports of steel. That agreement has not stopped the flow of very low cost imports from Brazil, and the Commerce Department has terminated it. Nonetheless, each successful antidumping action produces additional pressures for settlement agreements.

3. On June 12, 1984, the International Trade Commission ruled on a Section 201 "escape clause" action brought by Bethlehem Steel and the United Steel Workers. The Commission found that imports had increased and were injuring the domestic industry. However, in considering the question whether "substantial" injury was caused by imports (i.e., whether imports were at least as great a cause of injury as any other cause), the Commission disaggregated the steel industry into nine components. One of these components was "bar," an agglomeration of hot rolled bar, prestressed bar, concrete reinforcing bar, special sections and cold finished. In reaching a negative finding on this bar category, the Commission apparently concluded that the injury due to mini-mill competition was a greater cause of injury than the modest increases in imports of the aggregated bar category.

The Commission's decision lumping cold finished bar into the composite category ignored the fact that producers, markets, import penetration, and other relevant characteristics are quite different for CFSB from other kinds of bar. Only one minimill produces cold finished bar, and its importance in the market is insignificant compared to the role of mini-mills in the other bar markets. Moreover, as noted above, import penetration has risen enormously in the cold finished bar market and is now running more than twice the level of penetration for bars generally.

The Commission's failure to recognize these important distinctions could cause substantial further injury to the domestic cold finished bar industry.

In retrospect, recourse to our trade laws has not been a solution to the import problems. We now have a patchwork of antidumping or countervailing duties, side agreements, escape clause actions, cases in progress and negotiations underway affecting steel trade. This jumble of measures adversely affects domestic producers, foreign suppliers and steel users. No one seems entirely certain which way policies will develop; indeed, there seems to be no guiding policy in this area at all. Instead, the government appears to be headed in several directions at once.

We believe that the present efforts to cope with steel trade issues are directed at the symptoms of the underlying problems—a subsidy here, dumping there, import surges elsewhere. But these practices represent predictable results of the fundamental problem that I noted above: the United States is the only major open market for steel in a world of excess capacity. Only by addressing that issue on a comprehensive basis can we deal with the root of the problems.

A COMPREHENSIVE APPROACH TO OUR STEEL TRADE ISSUES

Presently, the United States steel industry is in the midst of far reaching programs to rationalize and modernize. Plant closings have been widespread, reorganization of facilities has been announced and substantial funds are being poured into new plant and equipment. Both salaried and hourly workers have experienced layoffs, wage reductions and losses of benefits. Carrying on this exercise during the recession was hard enough, but imports have compounded the difficulties, even during the economic recovery. Doubling or tripling the number of antidumping or countervailing duty suits will not sufficiently relieve that additional pressure.

To survive as a critical part of our national economy and defense establishment, the steel industry must have a respite from the market disruption caused by surging imports. That kind of relief can be developed only on a comprehensive basis, and it is for this reason that we applaud the introduction of H.R. 5081, which has been co-sponsored by over 100 Congressmen.

That bill would, for the first time, undertake to deal with all steel products from all sources. Individual product quotas would be established that, overall, would limit imports to about 15% of apparent domestic consumption. In return, the steel industry would be expected to invest each year amounts at least equivalent to its cash flow in plant modernization and development.

We in the CFSB Industry would welcome such a bargain with the government. My own estimate is that that amount of investment and more is being made in the CFSB industry.

We understand that the Administration opposes quota legislation, principally because they believe it would result in retaliation by other countries. We do not desire to take actions that would handicap America's export industries. However, we believe that there exists a straightforward solution to the Administration's concern about retaliation.

I refer to the possibility of an international, multilated agreement on steel exports to the United States. We already have in place a very important element in such an agreement, our arrangement with the European Communities. We believe that the Japanese would be willing to formalize and particularize the "gentlemen's agreement" reached last year. And we also understand that a number of other supplying countries would be happy to undertake similar restraints, which would remove uncertainties and disruptions caused by the antidumping and countervailing duty suits of the last two years. In fact, South Africa, Mexico and Brazil have already taken the step of imposing unilateral limits on their exports.

In short, we believe that a comprehensive approach to steel import problems is well within reach. Such an agreement could result in the kind of restraints on imports envisaged by H.R. 5081 and could be concluded without concern about retaliation. The agreement could be entered into under the President's general authority to conduct foreign policy, or it even might be undertaken to resolve the section 201 "escape clause" action brought by Bethlehem Steel and now under consideration by the International Trade Commission.

Some legislation would still be necessary. First, we understand that, for a number of supporters of H.R. 5081, the *quid pro quo* of industry investment is critical. Legislation could impose a similar requirement on the conclusion and continuation of an international steel agreement. Secondly, there should be some assurance that the restraints embodied in an international agreement reflect the levels considered appropriate by the Congress. Legislation could assure that an agreement not exceed specified levels. Finally, there is a need to assure that negotiations for an agreement are conducted and concluded promptly. Legislation could establish timetables that would assure that, failing successful negotiations for an agreement, legislative quotas would be imposed.

In short, we believe that there is a compromise approach to meet the concerns of the Administration regarding H.R. 5081.

On one point, however, there should be no compromise. We strongly believe that the Congress should insist upon a comprehensive approach to steel imports, one that will give the American industry the necessary respite from dumped, subsidized and predatory imports and permit the necessary investment and rationalization to allow us to become competitive with all foreign suppliers.

CARBON AND ALLOY CFSB IMPORTS—TONNAGE (IN THOUSANDS) AND AS PERCENTAGE OF APPARENT DOMESTIC CONSUMPTION

Year	Apparent domestic consumption	Total		Japan		EEC		Other [1]	
		Tonnage	Percent of ADC	Tonnage	Percent of ADC	Tonnage	Percent of ADC	Tonnage	Percent of ADC
1976	1,632	107	6.6	69	4.2	32	2.0	4	....
1977	1,854	180	9.7	124	6.7	38	2.0	15	0.1
1978	2,184	226	10.3	129	5.9	72	3.3	20	.1
1979	2,281	173	7.6	90	3.9	59	2.6	19	.1
1980	1,599	135	8.4	78	4.9	34	2.1	15	.1
1981	1,700	191	11.2	63	3.7	83	4.9	29	1.7
1982	1,098	166	15.1	54	4.9	60	5.5	34	3.1
1983	1,247	160	12.8	64	5.1	41	3.3	32	2.6
1984 (4 mos.)	581	95	16.4	27	4.6	29	5.0	26	4.5

[1] Excludes Canada.

Chairman **Gibbons**. Thank you.

All right, Mr. Weiler.

STATEMENT OF RICHARD J. WEILER, VICE PRESIDENT, TUBE DIVISION, CARPENTER TECHNOLOGY CORP., REPRESENTING THE SPECIALTY TUBING GROUP

Mr. **Weiler**. Thank you.

I apppreciate the opportunity to appear before this committee. I will excerpt from the statement that I have submitted for the record, for the sake of brevity.

My name is Richard J. Weiler. I am vice president in charge of Carpenter Technology Corp.'s Tube Division. Carpenter Technology is a multifaceted producer of stainless and specialty steels headquartered in Reading, PA. Our tube division is located in Union, NJ.

I am appearing here today on behalf of the specialty tubing group of the U.S. specialty steel industry. Our purpose in testifying is to inform the committee of the serious import problems being suffered by the stainless steel pipe and tube industry, and to request the committee's consideration of this segment in its broader deliberations on the future of the U.S. specialty steel industry.

Stainless steel pipe and tube plays a crucial role in the U.S. economy. These products have an endless variety of applications. In transportation, stainless steel pipe and tube is used in bearings, gears, fuel lines, and axles. Stainless steel pipe and tube is used to convey liquids and gases in the chemical and power-generation industries. Because of its high-tensile strength, corrosion and heat-resistant properties, specialty tubing is essential to the conveyance of liquids and gases at extremes of temperature and pressure. It is accordingly used as boiler tubes, high-pressure steamlines, heat exchangers, et cetera. These are but a few examples of the many important uses of specialty steel tubing. The oil industry is dependent upon stainless steel pipe and tube for deep well production applications. Production of stainless steel pipe and tube thus is critical to the maintenance of our national security.

Unfairly traded imports of stainless steel pipe and tube, however, have eroded the position of the industry in the U.S. market, caused extremely low profitability, plant closures, and severe employment declines. In the first few months of 1984, imports have simply exploded in comparison to levels experienced during the same period of 1983, threatening further erosion in the industry's already precarious position.

The widespread use of unfair trade practices by foreign governments and foreign steel industries has been widely documented and is well known to this committee. Both developed and developing countries have subsidized their industries extensively, and foreign industries often dump their steel products in the U.S. market by substantial margins. I will not recite the many instances of unfair trade here. Suffice it to say that unfair trade practices have permitted low-priced import specialty tubing to gain a significant presence in the U.S. market.

Total imports of welded stainless steel tubing reached 6,051 tons in 1981; 5,693 tons in 1982; and 5,939 tons in 1983. In the period January-April 1984, total imports reached 4,333 tons, which is close to the previous year total and represents a growth rate of 283 percent.

Total imports of seamless stainless steel tubing followed a similar trend: 16,163 tons in 1981; 15,083 tons in 1982; and 13,181 tons in 1983. In the first 4 months of 1984 imports jumped dramatically to 6,062 tons. This level represents a growth rate of 69 percent on top of market penetration of well over 50 percent. We are being inundated with imports.

The substantial and increasing presence of imports in the U.S. market has caused severe injury to the U.S. specialty tubing industry. Profits are extremely low or nonexistent, hardly justifying the substantial capital investments made by the industry in recent years. The Trent Tube Division of Colt Industries has been forced to close several plants in recent months. Babcock & Wilcox Tubular Products Group reported a decline in employment from 7,200 workers in January 1982 to approximately 2,950 in mid-1983. My company, Carpenter Technology Corp., has been forced to close two tube manufacturing plants and consolidate operations into a single facility. Other examples of the injurious impact of severe import competition can be cited.

A major source of these imports is the European Community. Both carbon and stainless pipe and tube were added to the arrangement by an exchange of letters in October 1982.

Imports of specialty pipe and tube from the European Community have well exceeded the agreed triggering point since the supplemental exchange of letters. It is our understanding that the U.S. Department of Commerce is in the process of consultations with the European Community regarding levels of import penetration. The outcome of these consultations is unclear: but, an unsuccessful or delayed result could spell disaster for the stainless steel pipe and tube industry.

We appreciate the Trade Subcommittee's close attention to the problems of the American steel industry. We know that you will continue these efforts, and ask that you include the stainless steel pipe and tube industry in your deliberations.

In addition, the International Trade Commission did not find the carbon steel pipe and tubing industry was seriously injured under the recent section 201 case decision. That means more import pressure on both carbon and specialty tubing products. That also increases the urgency of Congress to pass the Fair Trade in Steel Act.

Thank you.

[The prepared statement follows:]

STATEMENT OF RICHARD J. WEILER, VICE PRESIDENT, TUBE DIVISION, CARPENTER TECHNOLOGY CORP., REPRESENTING THE SPECIALTY TUBING GROUP

My name is Richard J. Weiler. I am vice president of Carpenter Technology Corporation in charge of CarTech's Tube Division. CarTech is a multi-faceted producer of stainless steel headquartered in Reading, Pennsylvania. Our Tube Division is located in Union, New Jersey.

I am appearing here today on behalf of the Specialty Tubing Group of the U.S. specialty steel industry. Our purpose in testifying is to inform the Committee of the serious import problems being suffered by the stainless steel pipe and tube industry and to request the Committee's consideration of this segment in its broader deliberations on the future of the U.S. specialty steel industry.

At the outset, I would like to describe the nature of the U.S. stainless steel pipe and tube industry. The industry is generally delineated according to two major types of pipe and tube. Welded stainless steel pipe and tube is produced by forming flat-rolled stainless steel sheet, strip or plate into a tubular configuration and welding along the straight or spiral joint. Pipe and tube is also produced without welding. This product is known as seamless stainless steel pipe and tube. It is generally produced by extruding and drawing steel over various rods to achieve the desired size and shape. Both technologies require considerable capital investment, with seamless being the more capital intense.

Stainless steel pipe and tube plays a crucial role in the U.S. economy. These products have an endless variety of applications. In transportation, stainless steel pipe and tube is used in bearings, gears, fuel lines and axles. Stainless steel pipe and tube is used to convey liquids and gases in the chemical and power generation industries. Because of specialty tubing's high tensile strength and corrosion and heat resistent properties, specialty tubing is essential to the conveyance of liquids and gases at extremes of temperature and pressure. It is accordingly used as boiler tubes, high pressure steam lines, heat exchangers, etc. Moreover, specialty tubing is used in machinery as hydraulic components, structural members, and tools. These are but a few examples of the many important uses of specialty tubing.

Specialty tubing serves a similar crucial role in the U.S. defense industrial base. Ships, aircraft and ground vehicles rely on specialty tubing for such uses as boilers, pumps, piping, hydraulic systems, bearings, gas cylinders and structural components. Gun barrels and various munitions require seamless specialty tubing. Moreover, the oil industry is dependent upon stainless steel pipe and tube for deep well production applications. Production of stainless steel pipe and tube thus is critical to the maintenance of our national security.

Unfairly traded imports of stainless steel pipe and tube, however, have eroded the position of the industry in the U.S. market and caused extremely low profitability, plant closures, and severe employment declines. In the first two months of 1984, imports have simply exploded in comparison to levels experienced during the same period of 1983, threatening further erosion in the industry's already precarious position.

The widespread use of unfair trade practices by foreign governments and foreign steel industries has been widely documented and is well known to this Committee. Both developed and developing countries have subsidized their industries extensively, and foreign industries often dump their steel products in the U.S. market by substantial margins. I will not recite the many instances of unfair trade here. Suffice it to say for present purposes that unfair trade practices have permitted low-priced imported specialty tubing to gain a significant presence in the U.S. market.

Total imports of welded stainless steel tubing reached 6,051 tons in 1981 before declining slightly to 5,693 tons in 1982. In 1983, total imports of welded specialty tubing grew again to 5,939 tons. In the period January-February 1984, total imports reached 2,359 tons, which is nearly half the previous year total and more than five times the level reached in January-February 1983.

Total imports of seamless stainless steel tubing followed a similar trend. From a level of 16,162 tons in 1981, total imports declined slightly to 15,083 tons in 1982 and 13,181 tons in 1983. As in the case of welded specialty tubing, imports of seamless specialty tubing in the first two months of 1984 jumped dramatically to 3,266 tons. This level is more than double that achieved in the same period of 1983.

The substantial and increasing presence of imports in the U.S. market has caused severe injury to the U.S. specialty tubing industry. Profits are extremely low or nonexistent, hardly justifying the substantial capital investments made by the industry in recent years. The Trent Tube Division of Colt Industries has been forced to close several plants in recent months. Babcock and Wilcox Tubular Products Group reported a decline in employment from 7,200 workers in January 1982 to approximately 2,950 workers in mid-1983. My company, Carpenter Technology Corporation, has been forced to close two tube manufacturing plants and consolidate operations into a single facility. Other examples of the injurious impact of severe import competition can be cited. But perhaps the most frustrating aspect of surging imports has been the inability of the industry to enjoy the fruits of the recent market expansion as the U.S. economy emerged from its recession.

A major source of these imports is the European Community. Although pipe and tube products were not subject to the original arrangement with the European Community, both carbon and stainless pipe and tube were added to the arrangement by an exchange of letters in October 1982. This supplemental agreement was not specific as to the permissible levels of market penetration by imports of pipe and tube from the European Community. Nevertheless, the import penetration levels triggering consultations were informally set at approximately 5.9 percent of apparent domestic consumption for all U.S. imports of pipe and tube and 6.35 percent of apparent domestic consumption for imports of specialty tubing.

Imports of specialty pipe and tube from the European Community have well exceeded this triggering point since the supplemental exchange of letters. It is our understanding that the U.S. Department of Commerce is in the process of consultations with the European Community regarding levels of import penetration. The outcome of these consultations is unclear at this time, but an unsuccessful or delayed result could spell disaster for the stainless steel pipe and tube industry.

We appreciate the Trade Subcommittee's close attention to the problems of the American steel industry. Your efforts have been of great assistance to the industry in its defense against the onslaught of unfairly traded imports. We know that you will continue these efforts, and ask that you include the stainless steel pipe and tube industry in your deliberations.

In addition, the International Trade Commission did not find the carbon steel pipe and tubing industry was seriously injured under the recent section 201 case decision. That means more import pressure on both carbon and specialty tubing products. That also increases the urgency of Congress passing the Fair Trade in Steel Act.

Thank you.

Chairman GIBBONS. Thank you, gentlemen, very much for your fine statements.

Our next witness is Mr. Allan Mendelowitz from the General Accounting Office. All right, sir, we are prepared to hear from you.

STATEMENT OF ALLAN I. MENDELOWITZ, ASSOCIATE DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, GENERAL ACCOUNTING OFFICE

Mr. MENDELOWITZ. Thank you, Mr. Chairman.

My name is Allan Mendelowitz. I am an Associate Director of the General Accounting Office, and I am happy to be here at your request to discuss H.R. 5081, the Fair Trade in Steel Act of 1984.

With your permission, I would be happy to read an abbreviated statement and submit the full statement for the record.

Chairman GIBBONS. All right, we will do it that way.

Mr. MENDELOWITZ. Thank you very much.

Other witnesses have testified on the problems facing the U.S. steel industry and the likely costs and benefits that would accrue if this legislation were to pass. I would like to comment today on whether, as currently structured, H.R. 5081 is an effective and equitable vehicle for contributing to a turnaround in the financial health and competitiveness of the U.S. steel industry.

We view the use of trade protection for the benefit of a particular industry as equivalent in certain respects to the provision of direct financial assistance using appropriated tax revenues. A quota will likely raise prices to consumers and lower their real income in the same way a new tax would. Financial resources are transferred from the public to the targeted industry, regardless of whether this transfer comes in the form of a Treasury check or additional revenue derived from Government imposed restrictions, such as a quota. The steel quota bill should, therefore, incorporate all the safeguards that we would expect to find in a direct expenditure or Government loan program providing equivalent benefits. Such provisions currently contained in the bill are not adequate. I would like to discuss in greater detail some of the provisions of the bill that need improvement as well as other provisions that should be added.

Regarding considerations of equity, the laws of the United States provide mechanisms for restructuring firms that are in financial difficulty. The provisions of the bankruptcy laws provide a mechanism for firms in financial difficulty to solve their problems. In a restructuring under the bankruptcy laws, constituent groups bear some of the cost of restructuring. For example, unsecured creditors may only receive a portion of their claims or nothing at all. Union contracts may be rejected or revised along with revisions to benefits and salaries of managers. In fact, many concessions may even be made prior to a bankruptcy filing because the constituent groups believe that they have more to lose in a court ordered reorganization or liquidation than by extending concessions in a prebankruptcy workout.

The quota bill, as it now stands, does not have specific provisions for contributions to a turnaround of the steel industry by the constituent groups that have the most to gain—shareholders, managers, workers, and creditors. The public is expected to fund a rebirth of the steel industry while those who stand to gain most are neither asked nor expected to make specific contributions to the effort. In contrast, look at the Chrysler loan guarantee program. While the law provided the authority for a Federal loan guarantee of up to $1.5 billion, it also required the commitment of an additional $2 billion by constituent groups, including creditors, shareholders, labor, and the governments of the States and localities in which Chrysler's plants were located. The actual extension of the Federal loan guarantees was contingent on a number of factors, including the receipt of support from other sources on a dollar for dollar matching basis.

Legislation that might equitably contribute to enhanced competitiveness of the U.S. steel industry should require contributions from all constituent groups that will gain from a resurgent steel industry and not just from the public.

IDENTIFYING ALL THE PROBLEMS THAT MUST BE ADDRESSED

The public policy objective of H.R. 5081 appears to be to make the U.S. steel industry more competitive, if not in world markets, at least in the domestic market. To succeed it is necessary to identify and address the underlying causes of the steel industry's problems. For example, to what extent are the industry's current problems attributable to such factors as (1) unfair competition from subsidized foreign producers; (2) wages that are far above the average U.S. industrial wage and the wage rates paid by foreign competitors; (3) outmoded plant and equipment; (4) poor management; or (5) changes in demand and the structure of the market? Without attention to these issues there is little likelihood a 5 year quota will provide for meaningful long term correction.

Regarding financial needs and resources, one factor that should be considered when establishing a Government program to provide assistance to an industry is how much financial aid is needed to get the job done and how much would be provided under different legislative proposals. As discussed above, there is no requirement for an explicit determination as to the causes of the industry's problems or what resources are required to correct these problems. Furthermore, under H.R. 5081, the amount of resources that would be made available to the steel sector for reinvestment is not readily determinable. It is contingent on cash flow from steel operations that in turn depends on the performance of the U.S. economy over a 5 year period. Therefore, the amount of additional cash flow that would be provided to the steel industry by H.R. 5081 isn't known and may be too little or too much.

Aid to a targeted industry in the private sector should also dependent on a demonstration that the undertaking in question is financially viable. For example, when the Congress passed the Chrysler Loan Guarantee Act, it did not unconditionally nor immediately grant Chrysler a Government backed loan guarantee. It created a set of conditions that had to be met to qualify for a loan guarantee and a board of high level Government officials to determine if the conditions were met. Among other things, Chrysler had to demonstrate, through financing and operating plans submitted to the Loan Guarantee Board, that it had investment and product plans that first, could be financed with the resources made available through the loan guarantee program and second, would enable the company to become financially viable without additional Federal assistance. It should be noted that negotiations with Chrysler over its financing and operating plans took many months and that a half a year elapsed between the date the statute was enacted and the date the company was able to qualify for and receive the first loan guarantees.

The steel quota bill would grant the quota and its accompanying revenue without the steel industry having to demonstrate anything and would place only limited investment requirements on the industry. The question has been raised in earlier hearings before this subcommittee whether H.R. 5081 would require the industry to do anything different than it is now doing to satisfy the requirement.

A bill that might contribute to the enhanced competitiveness of the U.S. steel industry would specifically require submission by industry of investment, operating, and financing plans, that would demonstrate the planned restructuring that would enable the industry to become competitive with the level of resources made available by the quota, within the 5 year period of protection.

Chairman GIBBONS. I have got to go vote and will be right back.

[A short recess was taken.]

Mr. HANCE [presiding]. OK, Mr. Mendelowitz, proceed, and I apologize for the delay but I had an amendment up on the House floor. Those things happen, as you well know.

Mr. MENDELOWITZ. Thank you, Mr. Chairman.

What I have been doing is summarizing some of the main points in my testimony which represent principles which we think should be considered when Government assistance to the private sector is undertaken and, therefore, represent types of issues that should be considered with regard to any bill like the quota bill to provide aid to the steel industry.

One of the things that we discussed was considerations of equity.

A second dealt with identifying all the problems that must be addressed.

A third dealt with the issue of financial needs and resources.

A fourth dealt with timing of determinations and benefits.

The point at which I left off in the testimony was at the beginning of the discussion of the point regarding assuring the effectiveness of the funds provided.

It seems reasonable that in return for the quota protection, steel firms should provide more specific commitments to insure that funds made available under the program are used for the intended purposes. Without appropriate safeguards, it is conceivable that at the end of the 5 year period envisioned in the legislation, banks will have received repayment of their outstanding loans, shareholders and bondholders will have received their dividends and interest payments, management and labor will have continued to receive their current real wages, and the industry will be no more competitive than it is today. In other words, given the lack of safeguards, it is possible that the sacrifices made by the public under this bill will do nothing more than provide benefits to the industry's constituent groups.

A bill that might contribute to the enhanced competitiveness of the U.S. steel industry should include provisions to insure that the resources provided to the industry through government intervention are used for the intended purpose; that is, to contribute to the competitiveness of the U.S. steel industry and not merely to benefit constituent groups. Such safeguards might include a requirement that in return for the benefits received, the companies cease corporate acquisitions unrelated to the steel industry.

Furthermore, they might be required to generate internal funds for investment in modern steelmaking capacity by spinning off some nonsteelmaking subsidiaries.

Creditors might be required to agree to a moratorium on the repayment of debt principal and to provide interest rate concessions to increase the amount of revenue from steel operations that would go into investment in steelmaking facilities.

State and local governments of localities in which steel companies are located might be required to make tax concessions.

Lastly, management and labor might be required to make wage and benefit concessions.

Such provisions would have a fourfold benefit. First, they would contribute to the fiscal efficiency of the program by helping to ensure that all added revenue resulting from the protected steel operations was used to enhance the competitiveness of the U.S. steel industry.

Second, they would help to ensure that those who stand to gain the most from a healthier steel industry share the cost of realizing that goal.

Third, making the publicly provided benefits from the quota contingent on financial contributions from constituent groups would give the publicly provided funds a multiplier effect. Every dollar of the quota subsidy would be supplemented by constituent group contributions invested in realizing the public policy goal.

Fourth, such contributions would contribute to the economic efficiency of such a program by providing a market test of the worth of the quota. It is easy for the industry to support a quota when it stands to receive substantial benefits without making corresponding contributions or sacrifices. A requirement that the industry's constituent groups, as well as the public, contribute to the support of the industry's financial needs places a real price on the benefits that the current supporters of the quota bill stand to receive. In so doing, it would also imbed in the program a set of behavioral incentives that would increase the likelihood that the objectives of the program would be realized.

One final observation that should be made with respect to H.R. 5081 relates to the type of assistance to be provided to the steel industry. The Government has available a wide range of policy instruments that can be used to achieve public policy objectives. Aid can be given to an industry in the form of quota protection as envisioned in this bill, but equivalent aid can also be provided in the form of direct subsidies, tax expenditures, loan guarantees, and exemptions from antitrust and regulatory requirements.

Each policy tool differs with respect to the effectiveness and equity with which it can achieve its objectives. If the regeneration of the U.S. steel industry is a desirable public policy goal, should the type of assistance considered in this legislation be restricted to a quota? There are alternatives or combinations of alternatives that may be preferable to the quota.

For example, one of the principal problems with a quota is the dilemma posed by free riders. There is no way the benefits of the quota can be denied to those that do not meet the statutory requirement concerning investment in steelmaking operations. At what point does the Secretary of Commerce determine that the investment requirement is not being met—when 10 percent of the industry is not meeting the test? Twenty percent, 51 percent?

One of the weaknesses in the quota is that it does not permit the Government to narrowly target assistance to those firms that comply with the statutory requirements. However, if quota protection were coupled with some form of direct subsidy, the full benefit of the program would consist of the quota plus other benefits. Those firms that do not comply would be able to benefit from the quota protection but would not receive the other benefits that make the package genuinely beneficial.

A quota bill that included the type of provisions I have discussed would be both equitable and structured in such a way as to increase the likelihood of increased competitiveness of the U.S. steel industry. If such a bill were under consideration, the debate could focus on the costs, benefits, and national interest in using Government intervention in such an undertaking. However, as it now stands, the bill does not include such provisions. We question how equitable and effective the bill can be without them.

Mr. Chairman, this concludes my prepared statement and I will be happy to try to answer any questions you may have.

Thank you.

[The prepared statement follows:]

STATEMENT OF ALLAN I. MENDELOWITZ, ASSOCIATE DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee, I am happy to be here today to discuss H.R. 5081, the Fair Trade in Steel Act of 1984. H.R. 5081 would place a 5-year quota on imported steel restricting imports to about 15% of the apparent domestic supply of all steel mill products. In return for this protection, the steel industry is required to use substantially all cash flow from the steel sector to reinvest in and modernize this sector. We understand that the intent of this legislation is to give the steel industry a period of relief during which time it would seek to regain its competitiveness in U.S. market.

The bill raises a number of important issues that need to be considered. First, the steel industry is undergoing considerable change: modern steelmaking capacity has been built in low-wage, developing countries, adding to worldwide excess capacity; demand for steel is declining as downstream industries substitute other materials; and the structure of the U.S. steel industry is changing with the rise of competitive minimills at the expense of large integrated producers. How does the forecasted impact of H.R. 5081 mesh with the current state of the steel industry? Second, does the steel industry need such protection? The United States currently has a number of formal and informal agreements with the European Common Market, Japan, Mexico, and Brazil which restrict steel exports from these countries to the United States. In addition, there are a number of existing statutes under which the steel industry has sought and obtained relief from foreign competition. Third, is the level of assistance which would be provided by H.R. 5081 the correct amount? Fourth, is a quota system the best way of responding to the needs of an industry undergoing major changes in demand and technology? Fifth, are the costs of imposing quotas balanced by the expected benefits? Such costs include: projected increased costs to consumers of steel products; reduced competitiveness of downstream U.S. industries if the cost of steel imputs increases; and the potential for retaliatory action by foreign governments against U.S. exports of products which are currently competitive on world markets.

Other witnesses have testified on the problems facing the U.S. steel industry and the likely costs and benefits that would accrue if this legislation were to pass. I would like to comment today on whether, as currently structured, H.R. 5081 is an effective and equitable vehicle for contributing to a turn around in the financial health and competitiveness of the U.S. steel industry.[1]

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[1] The issue of the design of another type of government assistance, large loan guarantees, is discussed in a recent GAO report (GAO/GGD-84-34). Many of the issues discussed in that study are applicable to the evaluation of any form of assistance (including quotas) focused on a single

Continued

We view the use of trade protection for the benefit of a particular industry as equivalent in certain respects to the provision of direct financial assistance using appropriated tax revenues. A quota will likely raise prices to consumers and lower their real income in the same way a new tax would. Financial resources are transferred from the public to the targeted industry, regardless of whether this transfer comes in the form of a Treasury check or additional revenue derived from government-imposed restrictions, such as a quota. The steel quota bill should, therefore, incorporate all the safeguards that we would expect to find in a direct expenditure or government loan program providing equivalent benefits. Such provisions currently contained in the bill are not adequate. I would like to discuss in greater detail some of the provisions of the bill that need improvement as well as other provisions that should be added.

CONSIDERATIONS OF EQUITY

The laws of the United States provide mechanisms for restructing firms that are in financial difficulty. The provisions of the bankruptcy laws provide a mechanism for firms in financial difficulty to solve their problems. In a restructuring under the bankruptcy laws, constituent groups bear some of the cost of the restructuning. For example, unsecured creditors may only receive a portion of their claims or nothing at all. Union contracts may be rejected or revised along with revisions to benefits and salaries of managers. In fact, many concessions may even be made prior to a bankruptcy filing because the constituent groups believe that they have more to lose in a court-ordered reorganization or liquidation than by extending concessions in a pre-bankruptcy "workout."

The quota bill as it now stands does not have specific provisions for contributions to a turn-around of the steel industry by the constitutent groups that have the most to gain—shareholders, managers, workers, and creditors. The public is expected to fund a rebirth of the steel industry while those who stand to gain most are neither asked nor expected to make specific contributions to the effort. In contrast, look at the Chrysler loan guarantee program. While the law provided the authority for a federal loan guarantee of up to $1.5 billion, it also required the commitment of an additional $2 billion by constitutent groups, including creditors, shareholders, labor, and the governments of the states and localities in which Chrysler's plants were located. The actual extension of the federal loan guarantees was contingent on a number of factors including the receipt of support from other sources on a dollar-for-dollar matching basis.

Legislation that might equitably contribute to enhanced competitiveness of the U.S. steel industry should require contributions from all constituent groups that will gain from a resurgent steel industry and not just from the public.

IDENTIFYING ALL THE PROBLEMS THAT MUST BE ADDRESSED

The public policy objective of H.R. 5081 appears to be to make the U.S. steel industry more competitive—if not in world markets, at least in the domestic market. To succeed it is necessary to identify and address the underlying causes of steel industry problems. For example, to what extent are the industry's current problems attributable to such factors as (1) unfair competition from subsidized foreign producers, (2) wages that are far above the average U.S. industrial wage and the wage rates paid by foreign competitors, (3) outmoded plant and equipment, (4) poor management, or (5) changes in demand and the structure of the market? Without attention to these issues, there is little likelihood a 5-year quota will provide for meaningful long term correction.

Legislation that might contribute to a return to competitiveness by the industry should include provisions that require identification of the whole set of factors that detract from its competitiveness. Such a determination should be made precedent to the extension of any assistance to the target industry.

FINANCIAL NEEDS AND RESOURCES

One factor that should be considered when establishing a government program to provide assistance to an industry is how much financial aid is needed to get the job done and how much would be provided under different legislative proposals. As discussed above, there is no requirement for an explicit determination as to the causes

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firm or industry. An earlier GAO statement for the record on October 4, 1983 for the Subcommittee on Economic Stabilization of the House Committee on Banking, Finance and Urban Affairs addressed an institutional mechanism for developing steel policy.

of the industry's problems or what resources are required to correct these problems. Furthermore, under H.R. 5081 the amount of resources that would be made available to the steel sector for reinvestment is not readily determinable. It is contingent on cash flow from steel operations that in turn depends on the performance of the U.S. economy over a 5-year period. Therefore, the amount of additional cash flow that would be provided to the steel industry by H.R. 5081 is unknown and may be too little or too much.

Legislation that might contribute to enhanced competitiveness of the U.S. steel industry should include provisions that require a determination as to the resource needs of the industry and a way of ensuring that an appropriate level of funds will be provided.

TIMING OF DETERMINATIONS AND BENEFITS

Aid to a targeted industry in the private sector should be dependent on a demonstration that the undertaking in question is financially viable. For example, when the Congress passed the Chrysler Loan Guarantee Act, it did not unconditionally nor immediately grant Chrysler a government-backed loan guarantee. It created a set of conditions that had to be met to qualify for a loan guarantee and a board of high-level government officials to determine if the conditions were met. Among other things, Chrysler had to demonstrate, through fiancing and operating plans submitted to the Loan Guarantee Board, that it had investment and product plans that (1) could be financed with the resources made available through the loan guarantee program and (2) would enable the company to become financially viable without additional federal assistance. It should be noted that negotiations with Chrysler over its financing and operating plans took many months and that a half a year elapsed between the date the statute was enacted and the date the company was able to qualify for and receive the first loan guarantees.

The steel quota bill would grant the quota and its accompanying revenue without the steel industry having to demonstrate anything and would place only limited investment requirements on the industry. The question has beeen raised in earlier hearings before this subcommittee whether H.R. 5081 would require the industry to do anything different than it is now doing to satisfy the requirement.

A bill that might contribute to the enhanced competitiveness of the U.S. steel industry would specifically require submission by industry of investment, operating, and financing plans, that would demonstrate the planned restructing that would enable the industry to become competitive with the level of resources made available by the quota, within the 5-year period of protection.

ASSURING THE EFFECTIVENESS OF FUNDS PROVIDED

It seems reasonable that in return for the quota protection, steel firms should provide more specific commitments to insure that funds made available under the program are used for the intended purposes. Without appropriate safeguards, it is conceivable that at the end of the 5-year period envisioned in the legislation, banks will have received repayment of their outstanding loans, shareholders and bondholders will have received their dividends and interest payments, management and labor will have continued to receive their current real wages, and the industry will be no more competitive than it is today. In other words, given the lack of safeguards, it is possible that the sacrifices made by the public under this bill will do nothing more than provide benfits to the industry's constituent groups.

A bill that might contribute to the enhanced competitiveness of the U.S. steel industry should include provisions to insure that the resources provided to the industry through government intervention are used for the intended purpose; i.e., to contribute to the competitiveness of the U.S. steel industry and not to benefit constituent groups. Such safeguards might include a requirement that in return for the benefits received the companies cease corporate acquisitions unrelated to the steel industry. Furthermore, they might be required to generate internal funds for investment in modern steelmaking capacity by spinning off some non-steelmaking subsidiaries. Creditors might be required to agree to a moratorium on the repayment of debt principal and to provide interest-rate concessions to increase the amount of revenue from steel operations that would go into investment in steelmaking facilities. State and local governments of localities in which steel companies are located might be required to make tax concessions. And lastly, management and labor might be required to make wage and benefit concessions.

Such provisions would have a fourfold benefit. First, they would contribute to the fiscal efficiency of the program by helping to ensure that all added revenue resulting from the protected steel operations was used to enhance the competitiveness of the U.S. steel industry. Second, they would help to ensure that those who stand to gain the most from a healthier steel industry share the cost of realizing that goal. Third, making the publicly provided benefits from the quota contingent on financial contributions from constituent groups would give the publicly provided funds a multiplier effect. Every dollar of the quota subsidy would be supplemented by constituent group contributions invested in realizing the public policy goal. And fourth, such contributions would contribute to the economic efficiency of such a program by providing a market test of the worth of the quota. It is easy for the industry to support a quota when it stands to receive substantial benefits without making corresponding contributions or sacrifices. A requirement that the industry's constituent groups, as well as the public, contribute to the support of the industry's financial needs places a real price on the benefits that the current supporters of the quota bill stand to receive. In so doing, it would also imbed in the program a set of behavioral incentives that would increase the likelihood that the objectives of the program would be realized.

TYPE OF ASSISTANCE

One final observation that should be made with respect to H.R. 5081 relates to the type of assistance to be provided to the steel industry. The government has available a wide range of policy instruments that can be used to achieve public policy objectives. Aid can be given to an industry in the form of quota protection as envisioned in this bill, but equivalent aid can also be provided in the form of direct subsidies, tax expenditures, loan guarantees, and exemptions from antitrust and regulatory requirements. Each policy tool differs with respect to the effectiveness and equity with which it can achieve its objectives. If the regeneration of the U.S. steel industry is a desirable public policy goal, should the type of assistance considered in this legislation be restricted to a quota? There are alternatives or combinations of alternatives that may be preferable to the quota. For example, one of the principal problems with a quota is the dilemma posed by "free riders." There is no way the benefits of the quota can be denied to those that do not meet the statutory requirement concerning investment in steelmaking operations. At what point does the Secretary of Commerce determine that the investment requirement is not being met—when 10% of the industry is not meeting the test? 20%? 51%? One of the weaknesses in the quota is that it does not permit the government to narrowly target assistance to those firms that comply with the statutory requirements. However, if quota protection were coupled with some form of direct subsidy, the full benefit of the program would consist of the quota plus other benefits. Those firms that do not comply would be able to benefit from the quota protection but would not receive the other benefits that make the package genuinely beneficial.

CONCLUSION

A quota bill that included the type of provisions discussed above would be both equitable and structured in such a way as to increase the likelihood of increased competitiveness of the U.S. steel industry. If such a bill were under consideration, the debate could focus on the costs, benefits, and national interest in using government intervention in such an undertaking. However, as it now stands, the bill does not include such provisions. We question how equitable and effective the bill can be without them.

Mr. Chairman, this concludes my prepared statement and I will be happy to try to answer any questions you may have.

Mr. **Pease** [presiding]. Thank you very much, Mr. Mendelowitz. I appreciate your testimony.

I am interested in the additional conditions you suggest might be appropriate. Have you given any thought to what the mechanism would be for making sure that those things were to occur. Obviously we can't write all that into the statute. In the case of Chrysler Corp., there was a super board of some kind, as I recall. What would be your suggestion in this case?

Mr. **Mendelowitz**. There are any number of possible ways of providing oversight over the provisions provided. The mechanism in the bill currently is that the authority is vested with the Secretary of Commerce. A second alternative would be a multimember board of Cabinet Secretaries such as the Secretary of Commerce, the U.S. Trade Representative, Secretary of the Treasury, and a third alternative might be a board like the Chrysler board which drew together high officials from different sectors of the government.

We have not undertaken any evaluation and I am not sure we could as to whether one particular type of oversight body is preferred to another, other than the observation that I might make that a board with more than one member is able to draw on more than one viewpoint and I suppose that is beneficial.

The Chrysler board, as you know, that had three voting members, the Secretary of the Treasury as Chairman, the Chairman of the Federal Reserve Board and the Comptroller General of the United States.

Mr. **Pease**. In the Chrysler case, were there requirements spelled out in the statute as far as you know or were there requirements that the board thought were appropriate?

Mr. **Mendelowitz**. The Chrysler bill was structured in a very interesting way. To begin with, there was an assessment made by Treasury before the legislation was passed as to what the financial needs of the corporation were. When consideration of the legislation took place, the debate benefited from the assessment by the financial analysts at the Treasury Department as to how much money was going to be needed, and the bill provided for that amount of support.

The bill provided a package with a total of something on the order of $3.5 billion, a maximum of $1.5 billion to come from Federal loan guarantees, and another $2 billion to come from concessions from constituent groups. The bill to fairly definitively specified the amount of contributions that were to come from each of the constituent groups. A dollar amount was placed on how much would come from labor concessions, how much would come in bank concessions, how much from shareholders, et cetera.

To keep the program from being held hostage to one person who didn't want to play, the board was given considerable authority and latitude to adjust the contributions of the individual constituent groups as long as the total came up to what was called for in the bill.

Mr. **Pease**. I see.

Continuing to look at the parallel with Chrysler, in the case of Chrysler, the board was dealing with a single company. In the case of the steel industry, we are dealing with a number of companies. How would we get around the problem of one company complying and another company not complying?

Mr. **Mendelowitz**. I think that obviously is a very difficult question. When you deal with one firm, you obviously have a lot of control over whether the target of your assistance is complying or not. I think that this issue has to be dealt with explicitly because once you introduce the quota, you change the incentives that are out there for managers, for the industry, for labor, and for negotiations with the industry. You change the incentives for users of steel and so, you can't avoid what is in effect a very difficult issue. One way of solving it, is possibly to deal with the industry associations.

A second way is to make some judgment that a given percent, maybe 80 percent, of the industry is enough to deal with and if the 80 percent who form the larger players are willing to play by the rules, then you are willing to sort of wink at the other 20 percent so to speak. That is an issue that has to be dealt with and it is not an easy issue. Some judgments have to be made as to whether you want it to be 75 percent who are willing to play along or some other number.

You also have to make some judgments, for example, about whether antitrust exemptions would be required for the industry to get together and negotiate with you.

However, imposition of Government directed discipline is essential if there is a quota. Once you change the incentives sufficiently, as you would with introduction of a quota, you have to come to grips with substituting some other discipline for that which has been removed because of the quota.

Mr. **Pease**. Thank you.

I am intrigued with your notion that in order to make sure that the quotas really would lead to investment and modernization, the Congress might do such things as requiring companies to forego corporate acquisitions unrelated to steel producers or even to divest themselves of nonsteel-producing subsidiaries.

I suspect that if you went to U.S. Steel Corp., and said, "If you want to take advantage of quotas, you are going to have to divest yourself of Marathon Oil Company," they would say "No thanks. We will keep Marathon Oil Company."

Is there any precedent at all for that kind of requirement that you are suggesting?

Mr. **Mendelowitz**. There is precedent. In the Chrysler Program we required that the corporation spinoff some nonautomotive assets, the most valuable of which was their defense operation. At the time the program began, the defense operation was not a separate subsidiary of the corporation, it was just a division of the corporation. Under the requirements of the loan guarantee program, Chrysler created a wholly-owned subsidiary for the defense operation and then sold it to generate funds for investment in their automotive operations.

Mr. **Pease**. I see. Well, thank you very much.

Mr. **Hance**. Thank you very much. I do not have any questions.

Mr. **Mendelowitz**. Thank you.

Mr. **Hance**. I think we have one witness left. We are fortunate to have the Deputy Director of the CBO, Mr. Hanushek. Please proceed.

STATEMENT OF ERIC A. HANUSHEK, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE, ACCOMPANIED BY LOUIS SCHORSCH AND EVERETT EHRLICH

Mr. **Hanushek**. Thank you, Mr. Chairman.

Before I begin, let me introduce Louis Schorsch and Everett Ehrlich, from CBO, who have joined me today.

I realize that lots of other things are going on today. I will try to summarize my statement, if I could enter the full statement for the record.

In particular, I would like to concentrate today on CBO's analysis of the potential impact of the quota contained in H.R. 5081, the effect of the quota on the U.S. economy in general, and whether it would have any effect on the long-run performance of the U.S. steel industry.

Just to set the stage—which I think has been discussed a lot in these hearings—the U.S. steel industry has benefited from some form of trade restraint for most of the past 16 years, although the proponents of restraints have argued that each of the trade programs pursued thus far has been inadequate. H.R. 5081 has been designed with these arguments in mind.

Even with restraints in effect, the steel industry has gone through two disastrous years in 1982 and 1983. The problems have been partly cyclical and partly the result of long-run trends in the economy. At the same time, imports have penetrated the U.S. steel industry far more than they have in the past, reaching some 25 percent of apparent U.S. consumption in the first quarter of this year. These factors have led to lots of pressure for protection of this industry.

I am going to skip over to a quick overview of what we see as the long-run state of the industry and then go on to the specifics of the bill.

FACTORS CONTRIBUTING TO THE CURRENT PREDICAMENT

In the past quarter century, the U.S. steel industry—consisting mostly of the so-called "integrated firms"—has lost the strong competitive advantage it enjoyed through the 1950's. By and large, the competitive problems of traditional American steel companies reflect adverse cost trends and a shift in comparative advantage away from the United States. The primary causes of the United States' deteriorating performance are to be found not in "unfair" foreign competition, unfavorable tax treatment, or excessive government regulation but in three more fundamental trends.

First, as a mature economy, the United States has been consuming less steel per dollar of GNP than have economies that are at earlier stages of maturity. The U.S. industry has had difficulty in accepting the poor overall growth prospects that prevail in its home market and in compensating for the advantages that more rapid growth gives to foreign competitors.

A second factor is that significant technological developments have led to the emergence of the so-called "minimills". Though minimills now make a limited range of products, they have proven quite successful at expanding the range of markets in which they compete. This trend seems unlikely to diminish.

Finally, steel production and consumption have gradually shifted away from their traditional centers in Europe and North America to developing countries. Particularly in unsophisticated high-volume product—plates, for example—developing countries are commonly the low-cost suppliers not only to the United States market, but to Europe and Japan as well.

No government policy is likely to reverse these trends. Thus no policy can spare the U.S. industry and its labor force from the need to adapt. The American steel industry is likely to be smaller in the future, reflecting the maturity of its market. The minimill sector is likely to be much larger, and integrated firms are likely to succeed by adopting many minimill characteristics. Finally, integrated firms are likely to move gradually toward technologically sophisticated products, avoiding direct competition with lower-cost foreign producers in commodity-grade products.

Policies toward the steel industry—including quota bills—are best judged in terms of whether they could ease this transition. If not, they are likely not only to impose a substantial burden on the rest of the economy, but also to hamper the eventual adjustment of the steel sector.

PROJECTED EFFECTS OF H.R. 5081 ON THE STEEL MARKET

CBO has estimated the effects of H.R. 5081 on the domestic steel market. These results are summarized in table 1; CBO has some background information for the committee on the details of these. Let me quickly summarize them.

If a quota were imposed, import prices would tend to rise significantly, because import competition would be constrained. The limit on imports would also increase the demand for domestically produced steel, causing domestic prices to rise. As a result, average steel prices in the U.S. market by 1989 would be a percent higher with the quota than without it—a difference of $67 per ton in that year. Import prices would rise more, in proportion, than would domestic prices, since they start from a much lower base. CBO assumes that the imposition of H.R. 5081's highly product-specific and country-specific quota would eliminate the differential that now distinguishes domestic and import prices, though one cannot test this assumption against the historical record.

These price increases would have a dampening effect on U.S. steel consumption. CBO estimates that apparent steel consumption in 1989 would be 111.5 million tons with the quota and 114.6 million tons without it—a difference of about 3 percent. By 1989, the quota would raise domestic output significantly, from 89 million tons without the quota to 98 million tons with it. This reflects a reduction in the 1989 import share from the projected 25 percent without the quota to the quota's limit of 15 percent. According to CBO's estimates, this increase in domestic output would raise 1989 steel employment by 34,000 workers—9 percent above the no-quota level. With or without the quota, however, the number of future jobs provided by the steel industry is projected to decline owing to slow demand growth and productivity increases. Moreover, increased steel employment would probably be offset by decreased employment in other sectors of the economy.

H.R. 5081 AND THE ECONOMY

CBO sees very small direct effects arising from any import quotas. The effects of H.R. 5081 would show up mainly in substantial income transfers and related efficiency losses. In 1989, the quota would probably cost U.S. consumers roughly $7.7 billion. On the assumption that import prices approximate domestic prices after the quota is in place, CBO estimates the 1989 effects of the quotas as follows:

About $4.5 billion would be transferred from consumers to the domestic steel-producing sector;

Roughly $2.1 billion would be transferred from consumers to foreign steel producers—although the government could conceivably capture this amount by selling import licenses; and

About $1.1 billion would represent an efficiency loss, since U.S. resources would have to be used to produce steel that could be purchased more cheaply from abroad.

Assuming that foreign producers captured the available revenues attributable to higher import prices, the loss to the U.S. economy would amount to roughly $3.2 billion—the sum of the transfer to foreign producers and the efficiency loss. These estimates include the costs borne by the rest of the economy.

Although the quota's aggregate price effect would be small, its most noticeable negative effects would be on output and employment in those industries that consume significant quantities of steel—automotive production, machinery, construction, and the like. This danger would be particularly pronounced for industries that face international competition. Current steel prices in the United States are about 20 percent above the world price, so they already represent a competitive disadvantage for many U.S. industries. Any increase in steel prices engendered by the quota would exacerbate this problem. In time, such developments might, in fact, encourage the industries affected to follow the steel industry's example in seeking protectionist solutions to their difficulties.

Finally, H.R. 5081 could invite retaliation, which is particularly important since the bill does not conform to the terms of the General Agreement on Tariffs and Trade (GATT). The GATT permits the imposition of trade restraints only under certain conditions, and these are incorporated in U.S. trade laws. Unlike H.R. 5081, the steel 201 case on which the International Trade Commission (ITC) ruled last week, is an example of a GATT-sanctioned procedure. Though the likelihood and magnitude of any retaliation are matters of conjecture, retaliation by trading partners would clearly imply further offsets to any benefits that accrue to the steel industry as a result of the proposed quota.

H.R. 5081 AND THE PROSPECT FOR IMPROVED PERFORMANCE IN THE AMERICAN STEEL INDUSTRY

The last issue I would like to address concerns the extent to which H.R. 5081 might contribute to improved performance in the U.S. steel industry. Two provisions are particularly relevant in this regard: the restrictions on iron-ore imports; and the reinvestment condition.

The inclusion of controls on iron-ore imports would work against H.R. 5081's underlying goal of improving the steel industry's cost competitiveness. Several foreign countries, such as Australia and Brazil, have reserves of iron ore that are far richer than U.S. reserves. As a result, continued reliance on U.S. ore is likely to increase the U.S. steel industry's competitive problems. Domestic ore costs range from 30 to 50 percent above those of the most efficient foreign producers, and Brazilian ore is now competitive with U.S.

ores even in the Great Lakes region. Hence, H.R. 5081's iron ore provisions run counter to the bill's main objectives.

The consequences of the reinvestment provision are more difficult to estimate. In 1980, the American Iron and Steel Institute, the Steel Tripartite Committee, and the Office of Technology Assessment separately estimated that, to restore its competitiveness, the industry would require a minimum annual investment of between $5.5 billion and $6.5 billion in 1983 dollars. Since the publication of those estimates, capital expenditures in the steel industry, as tabulated by the iron and steel institute, have averaged only $2.2 billion per year.

Why do the integrated firms have such difficulty achieving the level of investment they claim they need? The problem cannot be blamed on capital markets, since U.S. minimills have had little difficulty raising investment funds. Instead, the problem involves the integrated firms' choice of investments, many of which have been very capital intensive, dispersed among numerous plants, and lacking market focus. As a result, integrated firms' investments often earn low rates of return—the underlying reason for the persistence of alleged capital shortfalls.

CBO's analysis indicates that imposition of a H.R. 5081's import quota would provide the domestic steel industry with additional profits of roughly $1.8 billion (after taxes), which according to the bill would have to be reinvested in steel operations. However, since the steel industry has already been reinvesting more than the net cash flow from its steel operations, future investment might not rise by the full amount of potential new profits. Even if it did, it would still fall short of the industry's estimated capital requirements for modernization.

The relevant question, however, concerns the extent to which the new investment generated by the quota would represent a socially desirable use of capital resources. At present, various factors tend to encourage steel investment—including import restraints now in force, relaxed environmental regulations, and the ability to lease unused tax benefits to profitable firms. But the rates of return on steel investment have remained low, and capital has been invested more profitably elsewhere in the economy. By themselves, the import restraints would have at best a small effect on the industry's investment decisions, since the limits would be removed after 5 years, and since major investments in production facilities would take from 2 to 4 years to become operational.

The case for overriding the judgments of capital markets by mandating that each steel firm's cash flow be locked into steel capital has yet to be made. Only if investment strategies were grounded in the underlying trends that shape the steel market—which I sought to describe earlier in my testimony—would the modernization goals of H.R. 5081 be achievable. Without such a focus to new investment, the passage of H.R. 5081 offers little prospect of finally resolving the steel import problem. Indeed, pressure for a perpetual import quota would be a more likely outcome.

Thank you.

Mr. **Hance**. Thank you.

[The prepared statement follows:]

STATEMENT OF ERIC A. HANUSHEK, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, I am pleased to participate in these hearings on the Fair Trade in Steel Act of 1984, H.R. 5081. At this subcommittee's request, the Congressional Budget Office is now analyzing the forces shaping the U.S. steel industry's prospects, the economic effects of restraints on imports—particularly the quota proposed in H.R. 5081 and its companion bill in the Senate, S. 2380—and the policy options that might improve the steel industry's performance. As part of this effort, CBO has estimated the effect of a quota that would limit steel imports to the United States to 15 percent of the U.S. market, as H.R. 5081 proposes to do.

In my testimony this morning, I will concentrate on the following questions concerning the proposed quota:

What are the causes of the domestic steel industry's current difficulties?

How would a 15 percent import quota affect the domestic steel industry?

How would such a quota affect the rest of the economy—especially the overall price level, the gross national product (GNP), and employment?

Would the proposed quota lead to a long-term improvement in the U.S. steel industry's performance?

The United States' steel industry has benefited from some form of trade restraint for most of the past 16 years, although the proponents of restraints have argued that each of the trade programs pursued thus far has been inadequate. H.R. 5081 has been designed with these arguments in mind.

H.R. 5081 IN THE CONTEXT OF CURRENT MARKET CONDITIONS

The U.S. steel market is only now beginning to recover from the very depressed conditions of 1982 and 1983—in many ways, the worst years for the American steel industry since the 1930s. Recent data, though, show that domestic shipments have risen 30 percent above the level of a year ago. Accordingly, the annual rate of steel shipments has risen from 68 million tons in 1983 to about 80 million tons. This current level of output, however, would still be well below the 100 million tons shipped in 1979, the last peak year in the U.S. steel market. The severity of the industry's current problems reflect not only a cyclical downturn but also long-term trends as well.

The recent weakness in the domestic steel market was exacerbated by record levels of import penetration—more than 22 percent in 1982 and 20 percent in 1983. Through the first four months of 1984, imports have averaged more than 25 percent of apparent U.S. consumption,[1] and these conditions have again raised the issue of trade restraints in the steel market. The industry has continued to file countervailing duty and dumping cases against foreign producers before the International Trade Commission (ITC). These cases have led to several commitments by foreign producers to restrain their shipments to the United States—most notably, the current arrangement limiting the European Community to slightly below 6 percent of U.S. consumption. On another front, the Bethlehem Steel Corporation and the United Steelworkers of America, using Section 201 of the 1974 Trade Act, have filed a petition before the ITC requesting that imports be restricted to 15 percent of the U.S. market. Last week, the ITC ruled that imports were a source of injury in five of nine product categories, accounting for more than 70 percent of total U.S. steel consumption. The ITC will propose remedies for those products, and the President must then decide whether or not those or other measures, should be imposed for the products involved. Finally, both H.R. 5081 and S. 2380 would establish a similar 15 percent quota through legislative means.

Unlike the restraints preceding it, H.R. 5081 is highly product-specific, so that foreign producers could not repsond by shifting toward higher-valued products. Furthermore, it would apply to all importers, so that restraint on the part of some countries could not be offset by increased imports from others. In addition, H.R. 5081 would also provide relief to the U.S. iron-mining industry, limiting imports of iron ore to 25 percent of domestic supply, compared with an average of almost 30 percent from 1979 to 1982. The bill would also require that virtually all the cash flow generated by steel operations be reinvested in steel. Finally, although the bill seeks to reverse the U.S. steel industry's long decline, the quota is designed to last for five years only. The Secretary of Commerce could, however, extend it for an additional three years.

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[1] Apparent consumption equals domestic shipments minus exports plus imports.

FACTORS CONTRIBUTING TO THE CURRENT PREDICAMENT

In the past quarter century, the U.S. steel industry—consisting mostly of the so-called "integrated firms"—has lost the strong competitive advantage it enjoyed through the 1950s. By and large, the competitive problems of traditional American steel companies reflect adverse cost trends and a shift in comparative advantage away from the United States. The primary causes of the United States' deteriorating performance are to be found not in "unfair" foreign competition, unfavorable tax treatment, or excessive government regulation but in three more fundamental trends.

First, as a mature economy, the United States has been consuming less steel per dollar of GNP than have economies that are at earlier stages of maturity. This divergence seems to be increasing. Between 1950 and 1981, for instance, the United States' steel consumption grew at an annual rate of 1 percent. In the same period, Japan's steel consumption grew by 10 percent a year, although demand growth has now slowed in Japan as well. The U.S. industry has had difficulty in accepting the poor overall growth prospects that prevail in its home market and in compensating for the advantages that more rapid growth gives its foreign competitors.

A second factor is that significant technological developments have led to the emergence of the so-called "minimills." Such firms hardly existed 25 years ago, yet they now account for about 18 percent of domestic steel output. Being technologically advanced, minimills are highly efficient and can compete favorably against both domestic integrated producers and foreign suppliers. The minimills' success stems largely from their reliance on production methods that do not require the massive investments that the integrated firms claim they need for competitiveness. Though minimills now make a limited range of products, they have proven quite successful at expanding the range of markets in which they compete. This trend seems unlikely to diminish.

Finally, steel production and consumption have gradually shifted away from their traditional centers in Europe and North America to developing countries. Since demand prospects are relatively strong in such countries, their steel industries are likely to grow. Not surprisingly, low employment costs combined with advanced technology and in some cases a strong resource base makes countries such as Korea, Brazil, and Mexico increasingly formidable competitors. Particularly in unsophisticated high-volume products (plates, for example), developing countries are commonly the low-cost suppliers not only to the U.S. market but to Europe and Japan as well.

No government policy is likely to reverse these trends. Thus no policy can spare the U.S. industry and its labor force from the need to adapt. The American steel industry is likely to be smaller in the future, reflecting the maturity of its markets. The minimill sector is likely to be much larger, and integrated firms are likely to succeed by adopting many minimill characteristics. Finally, integrated firms are likely to move gradually toward technologically sophisticated products, avoiding direct competition with lower-cost foreign producers in commodity-grade products.

Policies toward the steel industry—including quota bills—are best judged in terms of whether they could ease this transition. If not, they are likely not only to impose a substantial burden on the rest of the economy but also to hamper the eventual adjustment of the steel sector.

PROJECTED EFFECTS OF H.R. 5081 ON THE STEEL MARKET

CBO has estimated the effects of H.R. 5081 on the domestic steel market. These results, displayed in Table 1, were generated by an econometric model that describes the factors that influence prices, demand, imports, exports, and so on. The details of this model will be made available to the subcommittee. This morning, I will illustrate CBO's results by discussing the estimates for 1989, since these are quite comparable with the estimates for other years.

If a quota were imposed, import prices would tend to rise significantly, because import competition would be constrained. The limit on imports would also increase the demand for domestically produced steel, causing domestic prices to rise. As a result, average steel prices in the U.S. market by 1989 would be 9 percent higher with the quota than without it—a difference of $67 per ton in that year. Import prices would rise more, in proportion, than would domestic prices, since they start from a much lower base. CBO assumes that the imposition of H.R. 5081's highly product-specific and country-specific quota would eliminate the differential that now distinguishes domestic and import prices, though one cannot test this assumption against the historical record.

These price increases would have a dampening effect on U.S. steel consumption. CBO estimates that apparent steel consumption in 1989 would be 111.5 million tons with the quota and 114.6 million tons without it—a difference of about 3 percent. By 1989, the quota would raise domestic output significantly, from 89 million tons without the quota to 98 million tons with it. This reflects a reduction in the 1989 import share from the projected 25 percent without the quota to the quota's limit of 15 percent. According to CBO's estimates, this increase in domestic output would raise 1989 steel employment by 34,000 workers—9 percent above the no-quota level. With or without the quota, however, the number of future jobs provided by the steel industry is projected to decline owing to slow demand growth and productivity increases. Moreover, increased steel employment would probably be offset by decreased employment in other sectors of the economy.

TABLE 1.—STEEL MARKET TRENDS, ACTUAL 1983 AND PROJECTED 1985 THROUGH 1989: BASE-CASE [1] COMPARED WITH H.R. 5081, 1983–89 [1]

	1983 actual	Projected				
		1985	1986	1987	1988	1989
Average price (dollars per ton): [2]						
Base case	484	564	607	648	679	706
H.R. 5081	484	613	657	697	736	773
U.S. demand (millions of tons):						
Base case	83.04	106.37	109.05	112.19	114.32	114.59
H.R. 5081	83.04	103.97	106.64	109.77	111.54	111.47
U.S. shipments (millions of tons): [3]						
Base case	67.18	83.64	86.42	89.65	90.25	89.29
H.R. 5081	67.18	90.42	93.30	96.54	98.12	98.11
Import share (percent):						
Base case	20.5	23.2	23.1	22.9	23.9	24.9
H.R. 5081	20.5	15.0	15.0	15.0	15.0	15.0
Steel-industry employment (thousands of steel industry jobs):						
Base case	336	425	424	424	415	399
H.R. 5081	336	452	452	452	446	433

[1] Projected using CBO economic projections, holding the real price of inputs constant.

[2] Weighted average of import and domestic price in nominal terms (that is, not adjusted for inflation).

[3] Includes projected exports.

Source: Congressional Budget Office.

H.R. 5081 AND THE U.S. ECONOMY AT LARGE

Predictably, the effects of the quota on the domestic steel industry would be positive—at least in terms of output and employment. The costs of the bill, however, would show up not in the steel market but in the rest of the economy, largely through higher prices and resulting misallocation of resources. Nonetheless, the role of the steel industry in the overall U.S. economy is small enough that the quota would not greatly affect the general price level, the GNP, or total domestic employment. With each of these factors—though the aggregate net impact of the quota might well be injurious—the effect would be too small to capture definitely in a macroeconomic model.

The effects of H.R. 5081 would show up mainly in substantial income transfers and related efficiency losses. In 1989, the quota would probably cost U.S. consumers roughly $7.7 billion. The exact amount of these costs—as well as its distribution among domestic steel producers, foreign producers, and uncaptured efficiency losses—would depend on the extent to which the quota raises import prices. On the assumption that import prices approximate domestic prices after the quota is in place, CBO estimates the 1989 effects of the quota as follows:

About $4.5 billion would be transferred from consumers to the foreign domestic steel-producing sector;

Roughly $2.1 billion would be transferred from consumers to foreign steel producers—although the government could conceivably capture this amount by selling import licenses; and

About $1.1 billion would represent an efficiency loss, since U.S. resources would have to be used to produce steel that could be purchased more cheaply from abroad.

Assuming that foreign producers captured the available revenues attributable to higher import prices, the loss to the U.S. economy would amount to roughly $3.2 billion—the sum of the transfer to foreign producers and the efficiency loss. These estimates include the costs borne by the rest of the economy.

Although the quota's aggregate price effect would be small, its most noticable negative effects would be on output and employment in those industries that consume significant quantities of steel—automotive production, machinery, construction, and the like. This danger would be particularly pronounced for industries that face international competition. Current steel prices in the U.S. are about 20 percent above the world price, so they already represent a competitive disadvantage for many U.S. industries. Any increase in steel prices engendered by the quota would exacerbate this problem. In time, such developments, might, in fact, encourage the industries affected to follow the steel industry's example in seeking protectionist solutions to their difficulties.

Finally, H.R. 5081 could invite retaliation, which is particularly important since the bill does not conform to the terms of the General Agreement on Tariffs and Trade (GATT). The GATT permits the imposition of trade restraints only under certain conditions, and these are incorporated in U.S. trade laws. Unlike H.R. 5081, the steel 201 case on which the ITC rules last week is an example of a GATT-sanctioned procedure. Though the likelihood and magnitude of any retailiation are matters of conjecture, retaliation by trading partners would clearly imply further offsets to any benefits that accrue to the Steel industry as a result of the proposed quota.

H.R. 5081 AND THE PROSPECTS FOR IMPROVED PERFORMANCE IN THE AMERICAN STEEL INDUSTRY

The last issue I would like to address concerns the extent to which H.R. 5081 might contribute to improved performance in the U.S. steel industry. Two provisions are particularly relevant in this regard:

The restrictions on iron-ore imports, and

The reinvestment condition.

The inclusion of controls on iron-ore imports would work against H.R. 5081's underlying goal of improving the steel industry's cost competitiveness. Several foreign countries, such as Australia and Brazil, have reserves of iron ore that are far richer than U.S. reserves. As a result, continued reliance on U.S. ore is likely to increase the U.S. steel industry's competitive problems. Domestic ore costs range from 30 percent to 50 percent above those of the most efficient foreign producers, and Brazilian ore is now competitive with U.S. ores even in the Great Lakes region. Hence, H.R. 5081's iron ore provisions run counter to the bill's main objectives.

The consequences of the reinvestment provision are more difficult to estimate. In 1980, the American Iron and Steel Institute, the Steel Tripartite Committee, and the Office of Technology Assessment separately estimated that, to restore its competitiveness, the industry would require a minimum annual investment of between $5.5 billion and $6.5 billion (in 1983 dollars, as are all of the investment figures I will cite). (The figures cited here explicitly disregard nonsteel investment and spending for capacity increases.) Since the publication of those estimates, capital expenditures in the steel industry, as tabulated by the iron and steel institute, have averaged only $2.2 billion per year.

Why do the integrated firms have such difficulty achieving the level of investment they claim they need? The problem cannot be balmed on capital markets, since U.S. minimills have had little difficulty raising investment funds. Instead, the problem involves the integrated firms' choice of investments, many of which have been very capital intensive, dispersed among numerous plants, and lacking market focus. As a result, integrated firms' investments often earn low rates of return—the underlying reason for the persistence of alleged capital shortfalls.

CBO's analysis indicates that imposition of a H.R. 5081's import quota would provide the domestic steel industry with additional profits of roughly $1.8 billion (after taxes), which according to the bill would have to be reinvested in steel operations. However, since the steel industry has already been reinvesting more than the net cash flow from its steel operations, future investment might not rise by the full amount of potential new profits. Even if it did, it would still fall short of the industry's estimated capital requirements for modernization.

The relevant question, however, concerns the extent to which the new investment generated by the quota would represent a socially desirable use of capital resources. At present, various factors tend to encourage steel investment—including import restraints now in force, relaxed environmental regulations, and the ability to lease unused tax benefits to profitable firms. But the rates of return on steel investment have remained low, and capital has been invested more profitably elsewhere in the economy. By themselves, the import restraints would have at best a small effect on the industry's investment decisions, since the limits would be removed after five years, and since major investments in production facilities would take from two to four years to become operational.

The case for overriding the judgments of capital markets by mandating that each steel firm's cash flow be locked into steel capital has yet to be made. Only if investment strategies were grounded in the underlying trends that shape the steel market—which I sought to describe earlier in my testimony—would the modernization goals of H.R. 5081 be achievable. Without such a focus to new investment, the passage of H.R. 5081 offers little prospect of finally resolving the steel import problem. Indeed, pressure for a perpetual import quota would be a more likely outcome.

Mr. HANCE. Mr. Pease.

Mr. PEASE. I found your testimony very interesting. I am particularly interested in what happens to the worker who gets laid off in the steel industry. We heard this morning there are about 200,000 of them now. What prospects do you see for them going back to work?

Mr. HANUSHEK. Well, it is definitely a major concern. CBO estimates that the bill would bring about the reemployment of perhaps 34,000 more steelworkers than would happen without the quota. A very important issue I have alluded to in my testimony concerning the need for adjustment in this industry. Adjustment seems a much more appropriate goal than trying to maintain the industry as it was in the past by pursuing investments that have not had a high return.

The United States has had various policies for trade adjustment assistance, retraining, and the like. Frankly, the experience has not been very good in retraining. This is true for specific programs designed for retraining people in declining industries and for policies that try to attract investment from other industries into the regional economies that are losing the business steel firms used to bring. So we face a long-run problem.

Mr. PEASE. Would you think it would be appropriate to use some of the capital generated by these quotas to retrain workers who are laid off from the industry?

Mr. HANUSHEK. I am not sure of the mechanism you could use, Congressman, because at least half of the money generated by these quotas would go directly to the firms. To the extent that the bill would ask firms to provide training for laid off individuals, that may be difficult if they have gone into other industries. Moreover, since the steel industry is unlikely to be a source of new jobs, requiring steel firms to provide retraining raises more difficulties than if steelworkers were going to be retrained by other industries.

Mr. PEASE. I would suggest that the industry should only invest in workers that will be working in that industry. Do you think an industry has any residual responsibility for the people who have been working for it for 15 to 20 years?

Mr. HANUSHEK. I think definitely there is. As I said, a serious problem is that the steel industry has been much larger through most of the postwar period than it is now. Today though, it faces a significant decline. So workers who have been with the industry for many years often haven't any place to go.

Mr. PEASE. Do you have any figures on the amount of money spent on R&D over the years by the steel industry compared with other manufacturing industries?

Mr. **Hanushek**. Yes. In fact, the steel industry has invested much less in R&D on a percentage basis than have other industries. The precise figures——

Mr. **Schorsch**. I think it ranks from 0.5 to 0.7 of total industry revenues, which ranks steel among the lowest of all manufacturing industries. There are only a few industries that spend proportionately less on research and development. One is textiles, and another is food processing—two somewhat comparable industries. Chemicals spend close to 3 percent even leaving out drug companies, which are quite research intensive. I think that is a problem for the steel industry because, since U.S. wages are generally higher than many of our competitors—they are going to be higher and should be higher—we have to find ways to become more productive to compete and that means having better technology. That in turn requires investing in research and development to find the technology.

That means not adapting to what has been proven abroad but taking risks on developing what the industry is referring to as breakthrough or leapfrog technology.

Mr. **Pease**. Well, that is what I am concerned about. If we provide some money for program investment and it gets invested in existing technology, then we will come up to the level where Korea and Japan and other nations are now and still have the disadvantage of labor rate differentials between the nations.

Is there anything that you see in this bill that would address that problem?

Mr. **Hanushek**. We don't see it directly. In fact, I guess we have to question whether expenditure on R&D would even be a legitimate use of the extra cash-flow generated by the quotas. We are uncertain about how to interpret that provision.

Mr. **Pease**. Would you think it would be appropriate in the legislation to specify that some of the increased cash-flow has to go specifically into research and development?

Mr. **Hanushek**. In general, these are the kinds of decisions that we would expect the industries to be making on their own. If there was the room for making profits there, we would expect the firms to be investing some of their cash in R&D and in new technology; that is partly what we don't see happening now.

Mr. **Pease**. Well, we don't see it happening; that is right. You mentioned in your testimony your concern about the effect on the long-run efficiency of the industry. I guess there are two things—first, have you estimated how much cash-flow would be generated by the quotas imposed by this bill?

Mr. **Hanushek**. Yes; we estimate about $1.8 billion in 1989 in an after-tax increase in profits.

Mr. **Schorsch**. Those are additional profits. It is very difficult to talk about the cash-flow effect, because it depends on the specific tax situation of the individual companies involved. So the best we can do is come up with a rough estimate; namely, $1.8 billion.

Mr. **Pease**. After-tax profits. Is that on an annual basis?

Mr. **Schorsch**. Yes.

Mr. **Pease**. One thing that concerns me—I asked this question this morning of Mr. Williams from the United Steelworkers—is trying to measure the available funds against the need. I wonder if you have done anything in that area? In other words, if the need for modernization would require $30 billion in capital over the next 5 years? If this bill generates $1.8 billion, it would help, but it still wouldn't leave us with a competitive industry. Have you looked at what is required to get continuous casters and basic oxygen furnaces and all the integrated mills in the——

Mr. **Hanushek.** On that score, we don't really have the capability of independently estimating the need for modernization. Rather, we have taken the results of a variety of other people's analysis is both in the industry and outside it—the Office of Technology Assessment, for example. These sources provide remarkably consistent estimates of what the need is. Estimates of the industry's capital needs have ranged between $5.5 billion and $6.5 billion annually—which, if you take the additional cash flow and just add it to the current amount of investment in the industry, still falls short.

CBO thinks that those estimates may actually be on the low side, if you talk about investing in large integrated plants and becoming competitive with some of the developing countries' suppliers and some of these other suppliers that have other advantages of our industry.

Mr. **Schorsch.** The problem in a way is the way the question is posed in terms of the capital shortfall. It really is much more a matter of the kind of investment choices the companies make than it is the absolute level of funds.

I think that even people within the industry now recognize that there have been a lot of poor investment choices in the past, yet these have often provided the basis for defining the capital shortfall. If those kinds of investments continue to be made, if those strategies continue to be pursued, they are not likely to have a beneficial effect. I think people in the industry have tended to look to the Japanese as a model of massive facilities, very capital intensive and so on. A more appropriate model might be the minimills, which are able to raise funds in capital markets and have no capital shortfall problem. Steel firms have to choose only those kinds of investments that give them productivity benefits and improved performance, which means breaking with traditional patterns of investment and behavior in the industry. If those conditions are met, I think that there is a prospect that investment could lead to a much more efficient and revitalized industry.

Mr. **Pease.** Based on what we have seen so far in the industry, is there any reasonable expectation that, given $1.8 billion a year, the American steel industry would move in more progressive directions than the nontraditional direction you suggest would be necessary?

Mr. **Hanushek.** It is a little hard to guess exactly what kind of investments we might see. We can look at the past record, which has been a bit spotty—as was pointed out—with some plants built in the 1970's already closed. If that continues, then we wouldn't think that much would happen.

On the other hand, if they changed to new technologies that offer good returns on their investment, meaning that they are really competitive—such as those applied at minimills—then $1.8 billion could in fact have a significant impact on the steel industry.

Mr. **Pease**. Is there anything in this bill which would have anybody outside of the individual companies looking over the shoulders of the managers and directors of American steel companies?

Mr. **Hanushek**. I think the Secretary of Commerce is appointed in this bill to look over their shoulders in the sense of certifying whether they are providing new investments of a significant magnitude.

Mr. **Pease**. My understanding is that this bill requires the Secretary of Commerce to monitor whether the investments are being made. That is a different question, it seems to me, from the quality of the investments or the type of investments.

Mr. **Hanushek**. It is different to some extent. The Secretary of Commerce still has to indicate whether these investments are going toward modernization or new investments as opposed to just expanding some capacity or maintaining old plants. But there is no board, as you were discussing with the representative from GAO, to look over the shoulder of investments as in the Chrysler case.

Mr. **Pease**. Well, finally, Mr. Chairman, I appreciate your indulgence, I would like to return just for one question or two, to the matter of workers who have lost their jobs, or will in the future lose their jobs presumably as even the major companies produce minimills which may not be located where the existing plants are—is there anything at all that you see in this bill before us that will facilitate the adjustment of steelworkers who either lose their jobs or in the future will lose their jobs?

Mr. **Hanushek**. No, to the contrary. We think that it might be harmful, in that the quotas would perhaps impede some of the adjustment that has to take place. And if they are actually removed at the end of 5 years, or after the extra 3 years, the quotas may be extended by the Secretary of Commerce, an even larger adjustment might be called for at that time.

Mr. **Schorsch**. I would say that the employment problems caused by the steel industry's predicament unfortunately aren't a problem that can be solved within the steel industry. Either the industry is going to continue to have competitive problems with plant closings and abrupt losses in employment, or it will revitalize itself, modernize, and shrink a bit to be more appropriate to market conditions. In the latter case, increased productivity is going to mean that the mills in the Monongahela Valley outside of Pittsburgh, or in Loraine, or in south Chicago, for instance, are no longer going to play the same role in the communities. It will no longer be the case, for instance, that kids coming out of high school can go right into the mill. The adjustment problems caused by the steel industries' difficulties, although they are a very difficult problem, still really can't be solved within the steel industry.

CBO shows in our employment projections that you get a increase in employment if you put the quota on because you get more output. But in the future, over the long term, increased productivity and relatively weak demand in the market cause a gradual loss in employment. The industry is not a net generator of new jobs any more.

Mr. **Pease**. Thank you very much. Very very good testimony.

Mr. **Hance**. I have a couple of questions.

One thing that I was wondering, I think I read in your testimony where you said steel prices in the United States were about 20 percent above the world market.

Mr. **Hanushek**. Yes.

Mr. **Hance**. If this bill passes, what kind of increase in prices do you foresee? What type of pressure will that bring and also what will be its inflationary effect?

Mr. **Hanushek**. The inflationary effect CBO sees on steel prices. There, we see import prices rising up to the levels of domestic prices and the average price level of steel going up about 9 percent over what it is now. That 9 percent translates into an increase of roughly half of 1 percent in the Producer Price Index, but a lesser amount in, say, the GNP deflator. Thus, the macroeconomic impacts of this quota don't appear all that significant.

Some perhaps more noticeable effects on prices would occur in particular industries such as automobiles and other steel-intensive industries.

Mr. **Hance**. What kind of steel industry do we need to maintain the national security of our country? When does import penetration reach a critical stage?

Mr. **Hanushek**. The United States is going to continue to have a steel industry that is more than ample to take care of any national defense concerns or anything like that. I don't think we can say that this country would be harmed if the steel industry stayed at its current level—which is quite low relative to the past—or even if it declined somewhat.

Mr. **Hance**. Steelworkers do not believe that, I know the ones in Texas I bump into take a different approach.

Mr. **Hanushek**. There is no doubt about that; I don't mean to minimize the problems. For the people in the industry, the problems are intense. The issue is how to help deal with the very real personal problems that arise in this declining industry.

Mr. **Hance**. Do very many other countries, if any, have the same problems?

Mr. **Hanushek**. Well——

Mr. **Hance**. In the steel industry.

Mr. **Hanushek**. I think lots of other countries, particularly in the last couple of years, have had very similar problems. World demand for steel has been down. Economies in industrialized nations around the world have been depressed. So that other countries indeed have faced this problem.

Mr. **Schorsch**. Particularly the European countries and Japan are facing very similar problems of declining steel demand. Both Europe and Japan are export-dependent, which is an advantage for the United States. We are not so dependent on highly volatile export markets. In Europe, there is very heavy state involvement, translating into losses to state governments ranging into the billions of dollars. In the case of Japan and Europe, as well as the United States, steel industries are faced with having to make adjustments. To end on a hopeful note, perhaps, the most effective competitor among those three regions in the future—at least as far as steel is concerned—will be the one that makes the adjustment most quickly.

I think that you overplay at the great success of the Japanese steel industry over the past 30 years. It is very easy to succeed when you have 10 percent market growth. It is very easy to manage growth, but much more difficult to manage retrenchment. Even though there are large costs involved, I think we may have a better prospect of managing that adjustment in many ways than the Europeans do, than the Japanese do. Certainly the success of the minimill sector is very good evidence that the reliance on market forces that applies in this country may provide the best means for carrying out this transition.

Mr. HANUSHEK. If I could add one point: we have been taught to look to Japan as an example of how to run a steel industry. But Japan has not been operating at full capacity for some 7 years, so they are facing some very similar problems.

Mr. EHRLICH. Steelworkers in Japan have been known to riot and overturn trucks transporting imported Korean steel from Japanese ports.

Mr. PEASE. Mr. Chairman, I have one more question. One of the arguments used by the steel companies in support of this legislation is that it will stem the tide of unfair foreign competition. Do you see any basis for that argument?

Mr. HANUSHEK. I think it is true that there are a lot of questionable trade practices in world steel trade. Yet we view the country-specific/commodities-specific restrictions contained in the bill as very clumsy and inappropriate instruments for counteracting either subsidies by foreign governments or dumping.

Other mechanisms are available in U.S. trade laws, and legislators might think of ways to speed the evaluation of unfair trade practices and the imposition of tariffs or countervailing duties to counteract subsidies. Such measures are more appropriate because they relate directly to the magnitude and the specific cases of unfair trade practices that we are concerned about.

Mr. PEASE. Do I assume correctly if there are quotas, those quotas would not be able to differentiate between subsidized and unsubsidized steel coming in from overseas?

Mr. HANUSHEK. That is true. In fact, what a quota generally does, the way the United States currently operates them, is provide a tremendous cost advantage to foreign producers, because they reap all the returns from lessened competition that they face in our market. If the quota provides a guaranteed share of the market, foreign producers can let their prices rise from where they are now. As a result, they don't have to compete, and U.S. dollars are transferred to them. I should add as a note that the U.S. Government could auction off import rights which, would essentially provide the returns from these quotas to the United States rather than foreign producers. Now, that should probably not be drafted immediately into legislation, but it identifies the difference in who gets the income transferred by the quota. I am not advocating this, but we could think of ways in which the United States could benefit from it.

Mr. PEASE. It would be true, though, that if quotas were in place, there would be considerably less price competition as foreign steel producers tended to raise their prices. You suggest that U.S. producers would not be subject to price competition. It would be more quality in delivery and that sort of thing.

Mr. **Hanushek**. That is correct. Absolutely.

Mr. **Pease**. Thank you.

Mr. **Hance**. Thank you, and we appreciate the witnesses allowing us to move them around a little on the schedule. This concludes our hearing today. We will be having future hearings and those will be announced at a future date. In the interim, the record will remain open.

With that, the hearing is adjourned.

[Whereupon, at 4 p.m., the subcommittee adjourned.]

PROBLEMS OF THE U.S. STEEL INDUSTRY

FRIDAY, AUGUST 3, 1984

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met at 9:40 a.m, pursuant to notice, in room B-318, Rayburn House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman Gibbons. Good morning, ladies and gentlemen. Mr. Frenzel and I have both been at another meeting, and we are just running a little late today. I asked the staff yesterday to rearrange the witness panels so that we would hear first from those who have come from out of town. We will go as far as we can today, but I have got an Eastern Airlines flight a little later on that I have got to catch.

The Congress is not in session today. If we do not finish today, I will try to reschedule for Monday afternoon, provided the staff agrees and the witnesses agree. At any rate, we will certainly get to everyone.

We appreciate you all coming. As everyone knows, this is a session of the Subcommittee on Trade of the Ways and Means Committee—perhaps a concluding hearing on the steel quota bill. Today's session is the fifth in the series. We are receiving statements from not only scheduled witnesses, but also written statements from other people whom we are not able to schedule for oral testimony.

Without further ado, let's hear first from the Caterpillar Tractor Co. and the Steel Product Manufacturers Committee panel, Mr. George and Mr. Blinken. We welcome you here, gentlemen, and you may proceed as you wish.

STATEMENT OF F.A. GEORGE, STEEL COMMODITIES MANAGER, CATERPILLAR TRACTOR CO.

Mr. George. Good morning, Mr. Chairman.

Mr. Chairman, and members of the subcommittee, my name is Al George. I am the steel commodities manager for Caterpillar Tractor Co. in Peoria, IL. In this capacity I have responsibility for purchasing all steel consumed in our U.S. facilities. I appreciate the opportunity to appear before you today to present my company's views on the proposal, embodied in H.R. 5081, for an across-the-board steel import quota.

My remarks will focus on the counterproductive impact of a steel quota, using Caterpillar as an example.

Caterpillar is a leading manufacturer of earthmoving, construction, and materials handling machinery and equipment; and diesel and natural gas engines and turbines. As such, Caterpillar is one of the largest steel consumers in the United States. We believe the company is the second largest consumer of U.S.-produced steel in the world.

In each of the 3 years prior to the depressed 1982–83 period, our total production contained an average of over 1 million tons of steel, worth more than one-half billion dollars. This constitutes about 1.2 percent of all U.S. production, and Caterpillar is the second largest producer of U.S. steel.

Steel accounts for: 65 percent of our machines, by weight; 25 percent of the cost of all production materials; and 10 percent of the total cost of goods sold. So the price and availability of steel has a significant impact on the company's overall costs, which we are trying to control in order for Caterpillar to remain competitive.

Caterpillar faces formidable and greatly increased foreign competition throughout its entire product line. For example, in 1970 four of the five leading earthmoving and construction equipment manufacturers were U.S. companies. Today our top three competitors are foreign firms. Worldwide, more than 160 foreign manufacturers build nearly 1,000 models of earthmoving and construction machinery of the type Caterpillar manufacturers. Many are small, but very competitive in their home markets. Others are aggressive, growing companies seeking to advance in the world marketplace.

Caterpillar has the highest quality products, the most modern manufacturing facilities, and unequaled product support. Yet many competitors have narrowed the gap and now offer high quality equipment at prices substantially below Caterpillar's.

To remain competitive in this environment, we have undertaken a major corporate-wide cost reduction program. Our goal is to reduce 1986 costs to 22 percent or more below those of 1981, in constant dollars adjusted for volume. To accomplish this, we have improved manufacturing efficiency, reduced employment and capital expenditures and announced the closing of six manufacturing plants.

A critical aspect of our extensive cost reduction effort is with suppliers. In 1983 Caterpillar purchased $2.5 billion worth of materials, supplies, and services. We have targeted this area of expenditure for major, permanent savings.

But to control the cost of steel, whether for our prime product or parts, Caterpillar must have access to both domestic and foreign sources of supply.

Over the past several years, many foreign steel mills have introduced innovative technology and production processes. These innovations have allowed foreign mills to produce higher quality products at lower costs than U.S. mills. Those technology-generated savings are important to steel purchasers like Caterpillar.

Purchase cost savings are accomplished by lower manufacturing costs associated with higher quality steel. Because steel processing takes up over half of our manufacturing floor space, such reductions are highly significant.

Chairman GIBBONS. Give me that one again.

Mr. GEORGE. Over half of our manufacturing space is involved in the fabrication of steel, so the improvements in the quality of steel that allow it to process more readily are very important to our costs. I can elaborate on that further in the Q and A if you desire.

Chairman GIBBONS. Very well.

Mr. GEORGE. For example, several years ago European steel producers developed microalloyed steel.

Chairman GIBBONS. Who did you say developed that?

Mr. GEORGE. Primarily European and, to some extent, Japanese steelmakers. They have perfected the techniques to use this type of steel in large forging of the type Caterpillar uses. That technology is just beginning to appear in the United States.

Another example is continuous cast steel. Continuous cast steel costs about 30 percent less than traditional ingot cast steel. The high quality continuous cast bars Caterpillar requires have been produced in Europe and Japan for several years. But availability is limited in the United States. Though some domestic minimills are seeking to develop the capability, their current products do not consistently meet our quality specifications.

The availability of foreign-produced steel also fosters price competition. Until the advent of the minimill, we rarely had seen a major U.S. steel producer with prices or product quality levels far from the industry standard. But the minimill, which benefits from lower costs and higher productivity, increases competition in those limited markets it serves. Foreign steel producers, by covering much broader product lines in the U.S. marketplace, cause the domestic industry to become even more price competitive.

Imported steel also encourages the domestic industry to modernize. Many technologically superior processes, which have given foreign suppliers a product quality and production cost advantage, finally are being adopted by domestic mills. We believe foreign competition has provided much of the impetus for renewal of the domestic steel industry.

In short, Caterpillar, and we believe the other U.S. manufacturers, are well served by an internationally competitive steel supply situation. The availability of foreign-produced steel in the U.S. promotes increased domestic competition. It supports jobs at Caterpillar and with U.S. suppliers, including U.S. steelmakers. And it is clearly preferable to the alternative, which is for U.S. manufacturers to move overseas in order to have access to lower-priced foreign materials.

Caterpillar is committed to being competitive in the world market with products produced at our U.S. manufacturing plants. Approximately three-fourths of our fixed assets and employees are in the United States. To preserve this massive U.S. presence, we must have continued access to competitively-priced steel.

Beyond this immediate and identifiable impact on production costs, we are concerned that a steel import quota could trigger retaliation from countries whose products would be locked out of the American market. In such an international tug-of-war, the big losers would be U.S. companies like Caterpillar that rely heavily on exports, and their employees. Ultimately our suppliers and their employees, including American steel companies and steelworkers, and the U.S. economy would also suffer.

As one of the largest exporters in the country, Caterpillar's dependence on export sales is virtually unique in American heavy industry. Our U.S. exports totaled $1.6 billion last year, 38 percent of the company's sales from domestic production.

Our export sales create U.S. jobs. The company's average 1983 U.S. employment was nearly 44,000, with 16,000 employees owing their jobs to Caterpillar exports. In 1980 and 1981, 31,000 Caterpillar jobs were supported by export sales from the United States.

And Caterpillar exports have greatly benefited our more than 12,400 U.S. suppliers and their employees. In 1983, $646 million of the goods and services we purchased from U.S. suppliers were dependent on export sales. We estimate that a total of 48,000 Caterpillar and supplier jobs were dependent on our 1983 exports. Again, this was down from a peak in 1980 and 1981 of an estimated 93,000 U.S. jobs.

Moreover, because Caterpillar is one of the largest purchasers of domestic steel and probably the largest exporter of domestically produced steel, the U.S. steel industry and its employees have benefited significantly from Caterpillar's exports. In each of the 3 years prior to the severely depressed 1982–83 period, Caterpillar exported, in its products, an average of 440,000 tons of domestically produced steel, worth over $230 million. Based on steel industry figures, we estimate our exports during each of those years supported the employment of about 2,120 U.S. steelworkers.

My point is that resorting to steel quotas would not only seriously threaten Caterpillar's U.S. employees but could also mean the loss of jobs for U.S. steelworkers.

In the end, a cruel trick is played on any country that relies on protectionism. Protectionism does not and cannot improve a nation's overall employment and economic health. The answer to foreign competition is not to shut it out. The answer is for American goods, and America, to become more competitive.

In conclusion, Mr. Chairman, an import steel quota would be bad policy for the United States. Our country cannot afford to have companies move operations overseas because of prohibitively high operating costs here. Neither can the world's largest exporting country afford the retaliation which certainly would occur in response to the imposition of steel quotas. The growth of protectionism both in the United States and abroad must be stopped. Defeat of this legislation would be a good place to begin to show our resolve.

Thank you once again for this opportunity to appear before the subcommittee. I would be pleased to respond to your questions.

[The prepared statement follows:]

STATEMENT OF F.A. GEORGE, STEEL COMMODITIES MANAGER, CATERPILLAR TRACTOR CO.

Mr. Chairman and members of the subcommittee, my name is Al George. I am the steel commodities manager for Caterpillar Tractor Co. in Peoria, IL. In this capacity I have responsibility for purchasing all steel consumed in our U.S. facilities. I appreciate the opportunity to appear before you today to present my company's views on the proposal—embodied in H.R. 5081—for an across-the-board steel import quota.

My remarks will focus on the counterproductive impact of a steel quota, using Caterpillar as an example.

Caterpillar is a leading manufacturer of earthmoving, construction and materials handling machinery and equipment; and diesel and natural gas engines and turbines. As such, Caterpillar is one of the largest steel consumers in the United States. We believe the company is the second largest consumer of U.S.-produced steel in the world. Caterpillar purchases have constituted about 1.2 percent of all domestic steel production. And in each of the three years prior to the depressed 1982–1983 period, our total production contained an average of over one million tons of steel, worth more than one-half billion dollars.

Steel accounts for: 65 percent of our machines, by weight; 25 percent of the cost of all production materials; and 10 percent of the total cost of goods sold. So the price and availability of steel has a significant impact on the company's overall costs—which we are trying to control in order for Caterpillar to remain competitive.

Caterpillar faces formidable and greatly increased foreign competition throughout its entire product line. For example, in 1970 four of the five leading earthmoving and construction equipment manufacturers were U.S. companies. Today, our top three competitors are foreign firms. Worldwide, more than 160 foreign manufacturers build nearly 1,000 models of earthmoving and construction machinery of the type Caterpillar manufactures. Many are small, but very competitive in their home markets. Others are aggressive, growing companies seeking to advance in the world marketplace.

Caterpillar has the highest quality products, the most modern manufacturing facilities, and unequalled product support. Yet many competitors have narrowed the gap and now offer high quality equipment at prices substantially below Caterpillar's.

To remain competitive in this environment, we've undertaken a major corporate-wide cost reduction program. Our goal is to reduce 1986 costs to 22 percent or more below those of 1981, in constant dollars adjusted for volume. To accomplish this, we've improved manufacturing efficiency, reduced employment and capital expenditures and announced the closing of six manufacturing plants.

Competition is toughest in the very important replacement parts business. Steel constitutes up to 70 percent of the cost of these goods. We are attempting to meet this challenge by reducing the cost of some parts by 40 percent or more.

A critical aspect of our extensive cost reduction effort is with suppliers. In 1983, Caterpillar purchased $2.5 billion worth of materials, supplies and services. We have targeted this area of expenditure for major, permanent savings.

But to control the cost of steel—whether for our prime product or parts—Caterpillar must have access to both domestic and foreign sources of supply.

Over the past several years, many foreign steel mills have introduced innovative technology and production processes. These innovations have allowed foreign mills to produce higher quality products at lower costs than U.S. mills. Those technology-generated savings are important to steel purchasers like Caterpillar.

Purchase cost savings are accompanied by lower manufacturing costs associated with higher quality steel. Because steel processing takes up over half of our manufacturing floor space, such reductions are highly significant.

For example, several years ago European steel producers developed micro-alloyed steel. When used to produce forgings, this steel—even without special heat treating—is unusually strong. So Caterpillar achieves considerable labor, manufacturing and energy cost savings—which may soon amount to as much as $6 million a year. Unfortunately the technology necessary to apply micro-alloyed steel to large forgings is not domestically available.

Continuous cast steel is another example. High quality continuous cast bars can withstand the repeated heavy loads to which our products are subjected. Continuous cast steel costs about 30 percent less than traditional ingot cast steel. The high quality continuous cast bars Caterpillar requires have been produced in Europe and Japan for several years. But availability is limited in the U.S. Though some domestic mini-mills are seeking to develop the capability, their current products do not consistently meet our quality specifications.

The availability of foreign-produced steel also fosters price competition. Until the advent of the mini-mill, we rarely had seen a major U.S. steel producer with prices or product quality levels far from the industry standard. But the mini-mill, which benefits from lower costs and higher productivity, increases competition in those limited markets it serves. Foreign steel producers, by covering much broader product lines in the U.S. marketplace, cause the domestic industry to become even more price competitive.

Imported steel also encourages the domestic industry to modernize. Many technologically superior processes, which have given foreign suppliers a product, quality and production cost advantage, finally are being adopted by domestic mills. We believe foreign competition has provided much of the impetus for renewal of the domestic steel industry.

In short, Caterpillar—and we believe other U.S. manufacturers—are well-served by an internationally competitive steel supply situation. The availability of foreign produced steel in the U.S. promotes increased domestic competition. It supports jobs at Caterpillar and with U.S. suppliers, including U.S. steelmakers. And it is clearly preferable to the alternative, which is for U.S. manufacturers to move overseas in order to have access to lower priced foreign materials.

Caterpillar is committed to being competitive in the world market with products produced at our U.S. manufacturing plants. Approximately three-fourths of our fixed assets and employees are in the United States. To preserve this massive U.S. presence, we must have continued access to competitively-priced steel.

Beyond this immediate and identifiable impact on production costs, we are concerned that a steel import quota could trigger retaliation from countries whose producers would be locked out of the American market. In such an international tug-of-war, the big losers would be U.S. companies like Caterpillar that rely heavily on exports—and their employees. Ultimately our suppliers and their employees (including American steel companies and steelworkers), and the U.S. economy would also suffer.

As one of the largest exporters in the country, Caterpillar's dependence on export sales is virtually unique in American heavy industry. Our U.S. exports totaled $1.6 billion last year, 38 percent of the company's sales from domestic production.

Caterpillar exports provide important benefits. The United States received a $1.3 billion net favorable contribution to the balance of trade—in a year of an almost $70 billion U.S. trade deficit. (While this favorable contribution was substantial, it was down more than 60 percent from the 1981 peak of $3.3 billion.) For the years 1979–1983, the company's net favorable contribution to the balance of trade totaled more than $12 billion.

Our export sales create U.S. jobs. The company's average 1983 U.S. employment was nearly 44,000, with 16,000 employees owing their jobs to Caterpillar exports. (In 1980 and 1981, 31,000 Caterpillar jobs were supported by export sales from the U.S.)

And Caterpillar exports have greatly benefited our more than 12,400 U.S. suppliers and their employees. In 1983, $646 million of the goods and services we purchased from U.S. suppliers were dependent on export sales. We estimate that a total of 48,000 Caterpillar and supplier jobs were dependent on our 1983 exports. (Again, this was down from a peak in 1980 and 1981 of an estimated 93,000 U.S. jobs.)

Moreover, because Caterpillar is one of the largest purchasers of domestic steel and probably the largest exporter of domestically produced steel, the U.S. steel industry and its employees have benefited significantly from Caterpillar's exports. In each of the three years prior to the severely depressed 1982–1983 period, Caterpillar exported, in its products, an average of 440,000 tons of domestically produced steel, worth over $230 million. Based on steel industry figures, we estimate our exports during each of those years supported the employment of about 2,120 U.S. steelworkers.

My point is that resorting to steel quotas would not only seriously threaten Caterpillar's U.S. employees, but could also mean the loss of jobs for U.S. steelworkers.

In the end, a cruel trick is played on any country that relies on protectionism. Protectionism does not and cannot improve a nation's overall employment and economic health. The answer to foreign competition is not to shut it out. The answer is for American goods, and America, to become more competitive.

Steel quotas cannot reverse certain fundamental—and necessary—changes taking place in our economy. The United States consumes considerably less steel today than a decade ago. Other materials, some cheaper, lighter and more energy efficient, often replace steel. The steel industry itself has developed lighter, stronger, more sophisticated steel to substitute for the heavier, bulkier product of the past. Decreased demand has led to decreased production.

To adjust, the U.S. industry must continue the major restructuring process already under way. The major integrated steel producers have made substantial progress recently to improve their competitiveness. In the past two years they have reduced total costs 18 percent and increased productivity 25 percent. Capacity reductions have lowered break even operating rates from 80 percent to 69 percent over this period.

Integrated steel producers continue to face significant investment and restructuring requirements. Plant closings, mergers, and cooperative collective bargaining agreements demonstrate a recognition of the need to modernize and cut costs.

But, Mr. Chairman, an import steel quota would be bad policy for the United States. Our country cannot afford to have companies move operations overseas because of prohibitively high operating costs here. Neither can the world's largest exporting country afford the retaliation which certainly would occur in response to the imposition of steel quotas. The growth of protectionism both in the United States and abroad must be stopped. Defeat of this legislation would be a good place to begin to show our resolve.

Thank you once again for this opportunity to appear before the subcommittee. I'd be pleased to respond to your questions.

Chairman GIBBONS. Thank you, sir.

Before we go to questions, we will hear from the Steel Products Manufacturers Committee. Mr. Blinken and Mr. Feller.

STATEMENT OF ROBERT J. BLINKEN, CHAIRMAN OF THE BOARD, MITE CORP., ON BEHALF OF STEEL PRODUCT MANUFACTURERS COMMITTEE, ACCOMPANIED BY PETER BUCK FELLER, COUNSEL

Mr. BLINKEN. Mr. Chairman, I am Robert Blinken, chairman of Mite Corp. and representing the Steel Product Manufacturers Committee. It is a privilege to appear again before this committee.

The Steel Product Manufacturers Committee is a group of companies in diverse industries with the common denominator of the defense on high quality, competitively priced steel. Our group is very small right now. It consists of seven companies, each one a leader in its field. Our aggregate annual sales of our members is about $2 billion, but as we expand our group, which we intend to do, we will be covering a group of industries that we think represents perhaps $100 billion a year in aggregate sales.

The facts in this matter, I think, are generally agreed to by authorities. Mr. Hanachek testified before this committee in June. His testimony corroborated that of others in prior years. Steel is about 20 percent higher priced in the U.S. than it is in other markets. That is a fact of life. If this legislation goes through, we can expect it to go up perhaps another 9 or 10 percent in relation to the price of steel in other markets.

In addition, experience has shown us that any import restraint in steel encourages diversionary exporting from foreign countries of steel products to the United States, either in the form of downstream dumping or simply in the form of fabricated products that American manufacturers can't compete with.

Both Mr. Hanachek's study and the study of the International Trade Commission, which was published in June 1982, indicate that that form of restraint does not increase the demand for steel in the United States. On the contrary, it decreases demand for steel in the United States. It gives the United States industry a bigger percentage of a much smaller pie. What happens is the demand for steel has shifted to other markets, and that means that the people in the United States who buy steel and use it lose business to foreign competitors.

I think one of our real concerns is the fact that the estimate that Mr. Hanachek has of about a 3-percent shrinkage in demand for steel in the United States by 1989 if this legislation goes through may be conservative. It may be based on rather old econometric models which don't take into account the fact that we are rapidly approaching a point on the demand elasticity curve where increases in steel costs are going to have really catastrophic effects on American industry.

For example, my company's plant in Indiana employs approximately 200 people, and we estimate that we support about 50 steelworkers with those 200 people. But if one turns it around the other way, those 50 steel workers threaten the jobs of those 200 people.

Let me see if I can bring this down to simpler day-to-day business terms. No. 1, I say amen to Mr. George. I am a supplier of Caterpillar, and I am very aware of the pressure that we are under to hold prices down and even reduce them.

The lead headline of the Wall Street Journal on July 31 was "Auto Companies Push Partsmakers to Raise Efficiency and Cut Prices." That was the headline. Now the automobile industry is perhaps the largest direct consumer of steel products in the United States.

Let's see if we can convert this into an every day problem. My customer, General Motors, wants me to hold my price down or reduce my price. Steel represents almost 50 percent of my cost of goods sold. Labor about 20 percent, a 10-percent increase in the price of steel means a 5-percent increase in my cost of goods sold. I will have to reduce my labor by 25 percent in a highly automated, very efficient business just to offset the cost of a steel increase.

Since my direct factory labor, which is the men who run the machines, is only about 5 percent, I would effectively have to eliminate all my direct factory labor and have machines run themselves forever in order to offset the effect of a 10-percent increase in the price of steel.

The problem that is raised is that the automobile companies, as an example, are saying, "We are not going to go out of business if you fellows don't hold your prices down and reduce them, but we will find Japanese suppliers." We will be paying 30 percent or 40 percent less for their steel, and it is not going to be a question of a 3-percent reduction in demand in the United States, which Mr. Hanachek rejects, but possibly a much more substantial reduction in demand.

Now, the logical solution for me, as a manufacturer, is to pick up my machines, call a real estate agent in Canada and move some of my machines to Canada, call a real estate agent to Mexico and move the rest of it to Mexico. Steel prices are much lower in those markets. I can ship to Mexico to the United States without any duty. I really don't want to do that. I am just too old. Maybe some younger fellow will take over my company and decide that is the thing to do.

But we also agree that we do need a healthy competitive steel industry in the United States. We think the steel industry should be healthy. We think public policy has agreed that we have to find a way to do it. We think this is the wrong way to do it.

Mr. Hanachek estimated that the cost to the American consumer of this proposal will be $7 billion a year. I, frankly, think it much more constructive to give them $7 billion a year or lend them $7 billion a year or do something that can help the steel industry restructure itself without destroying its customers. We are trying to cure a case of hay fever by tying a plastic bag over our heads. If you pull all the steel industry's customers out of business, there is not going to be any steel industry either.

I think we have to look for solutions which are positive rather than negative, some form of incentive to American steel users to buy from American mills. It has got to be an economic incentive is the only one that is going to work. Patriotism is fine, but it is going to put us out of business.

Again, it is gratifying to be here. We discussed other problems a year ago and H.R. 4784 addressed some of those problems. It is nice to know that people listen and that the legislative process works in this country. I think we have a very serious problem here. I think it is one that has to be addressed, but I think we have to address it in a constructive manner.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF THE STEEL PRODUCT MANUFACTURERS COMMITTEE

Good morning, Mr. Chairman, my name is Robert J. Blinken. I am Chairman of the Board of the Mite Corporation and I am testifying today on behalf of the Steel Product Manufacturers Committee. With me today is our counsel, Peter Buck Feller.

The Steel Product Manufacturers Committee is in its early stages of organization. To date, we have seven corporate members with annual sales of about $2 billion. Our membership is broadly representative of U.S. manufacturers of steel products where the cost of steel is a major element in the cost of production. That description covers over $100 billion per year in U.S. manufacturing of steel products and more than 1.2 million jobs.

Our mission is to help Congress and the Executive Branch understand the relationship between the cost and availability of steel and the competitiveness of this large sector of the U.S. economy at home and abroad.

LOWER STEEL PRICES AVAILABLE TO FOREIGN MANUFACTURERS

U.S. manufacturers of steel products are governed by a fundamental economic imperative: we must be able to buy steel at roughly the same price as our foreign counterparts in order to be competitive in the U.S. and foreign markets. If we assume that steel accounts for 50 percent of our production cost, and that our foreign competitors can buy steel for 20 percent less than we can, then the eventual outcome of the struggle can readily be predicted. Domestic manufacturers of steel products would to a large extent be displaced by import competition and a major market for the U.S. steel industry would disappear.

Unfortunately, the 20-percent price differential for steel is not hypothetical. As pointed by the Congressional Budget Office to this Subcommittee on June 20—

"Current steel prices in the U.S. are about 20 percent above the world price, so they already represent a competitive disadvantage for many U.S. industries."

That finding is in line with the experience of the U.S. fastener industry. In a 1981 proceeding before the International Trade Commission, Japanese fastener manufacturers revealed, under oath, that they were able to buy wire rod from Japanese steel mills at 20 to 30 percent less than the U.S. trigger price. In short, the Japanese mills were selling steel to Japanese fabricators at prices that would violate the U.S. antidumping law if sold for export to the United States. Such downstream dumping, however, is not actionable under U.S. law.

Another example involves the Italian steel giant, Finsider, which is heavily subsidized by the Italian Government. In 1982 the Commerce Department found that steel mill products from Italy receive a 15 percent subsidy and took offsetting action under the countervailing duty law. However, Italian steel fabricators can—and do—use this subsidized steel in their production of steel products for the U.S. market without exposure under the U.S. antidumping or countervailing duty law. As a result, many steel products from Italy enjoy a considerable, but entirely artificial, edge in the U.S. market.

U.S. POLICIES ENCOURAGE DOWNSTREAM DUMPING OF STEEL

There is no fundamental enconomic reason for such substantial pricing differentials for basic steel mill products. How then does one explain this phenomenon? Unquestionably, there is a worldwide surplus to steel production capacity, engendered in part by governmental interventionist policies. This includes United States measures over the last 15 years that have contributed to a substantial increase in the prices U.S. manufacturers must pay for steel (whether from domestic or foreign sources) relative to the prices available to our foreign competitors:

In the period 1969–74 the Voluntary Restraint Arrangements on Steel limited shipments of foreign steel to the U.S. market under U.S. State Department auspices.

The United States adopted the Trigger Price Mechanism (TPM) in 1978. The TPM functioned for the most part as a minimum import price requirement.

In 1983 the U.S. Government negotiated steel import restraints with major supplying countries after the U.S. steel industry had filed a series of antidumping and countervailing duty cases.

In 1983, the President initiated an "escape clause" proceeding on specialty steel products before the International Trade Commission and subsequently imposed import restraints on them.

In our view these actions have stimulated the downstream dumping of steel in the U.S. market. That effect was foretold by Edgar Speer, former Chairman of both the United States Steel Corporation and the American Iron and Steel Institute. When he appeared before this Subcommittee in 1978, he succinctly described this problem, as follows:

"Excessive volume of fabricated steel products that are not covered by the trigger-price mechanism will also effectively reduce the demand for domestic steel. This loophole must be eliminated, and when you address yourself to the fastener industry and a number of other industries in this country that use steel as their raw material to make finished products, they certainly will become sitting ducks for imports that can bring their products into this market as fabricated products at any price that they so desire." [1]

Although his comments were on the Trigger Price Mechanism, his warning about the downstream effects of import restraints is equally valid here.

Against that background, we were gratified by the recent House passage of the Trade Remedies Reform Act of 1984 (H.R. 4784) which would close this loophole. Whether the provision will be enacted into law, of course, remains to be seen.

COMMENTARY ON STEEL QUOTA PROPOSALS

Governmental efforts to bolster the steel industry through a series of import barriers have been essentially unproductive. For example, a 1982 study by the International Trade Commission on the effect of the Voluntary Restraint Arrangement's (VRA's) on steel concluded:

"Although the VRA's may have reduced the volume of steel imports from VRA countries considerably, they apparently had a relatively small effect on domestic production [of steel]." [2]

At the same time such barriers have been extremely damaging to a broad range of American steel product manufacturers. On the basis of that experience, we seriously question the wisdom of imposing a quota on steel imports—by legislation or by administrative action.

The enactment of any steel import quota would perpetuate and widen the existing discrepancy in our steel costs versus those of our foreign competition. According to the Congressional Budget Office the differential would rise from 20 to 29 percent. This would merely accelerate the substitution of imported steel products for American-made steel products. The same would be true if steel import restraints are imposed in the escape clause case now pending before the President. There, the International Trade Commission has recommended a combination of tariff and non-tariff barriers on imports of approximately 70% of all steel products over the next five years. Under existing law the President is powerless to prevent the diversion of these products into downstream channels.

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[1] Hearings before the Subcommittee on Trade of the House Ways and Means Committee on the "Administration's Comprehensive Program for the Steel Industry" (January 25 and 26, 1978) at pp. 78–79.

[2] USITC Publication 1256 (June 1982) at p. 10.

Our members believe it important for the United States to have a strong and internationally competitive steel industry. This is in the national interest, as well as our own interest.

The national interest relates in part to widely-held perceptions of our national security requirements. We share that view, but in the final analysis it is not steel as such that we need for preparedness reasons, but the components and machinery made from steel—ball bearings, valves, nuts and bolts, engine blocks, machine tools, and the like—that are vital for the manufacture and construction of military and essential civilian equipment and facilties. That principle was recognized by the Congress in 1958 when it amended the national security provision in our trade law to include "derivatives" of named materials. That amendment was explained in the Senate Finance Committee's report as follows:

"The need for such additional language is obvious, for *a limitation or the materials alone* would serve only to spur the importation of the finished or semi-finished products which are, in the final analysis, the very items most essential to the defense of the country." (Emphasis in original text.) S. Rep. No. 1838, 85th Cong., 2d Sess. 12 (1958).

The particular problem which gave rise to the amendment was the circumvention of an important quota on crude petroleum (that had been imposed on national security grounds) by increased imports of refined petroleum products such as gas and lubricating oils. If there is a lesson to be learned from that experience, it is that consideration of steel quotas should be coupled with consideration of quotas for strategically-important steel products.

LEGISLATIVE PROPOSALS

Whether or not steel quotas are legislated, we believe there are two amendments to the U.S. trade laws that are urgently needed:

The first is an amendment to the escape clause provisions (sec. 201 et seq., Trade Act of 1974) that would enable the President to safeguard against downstream circumvention of the temporary import restraints. In the absence of such safeguards, any action by the President to limit the quantity or raise the price of imported steel in connection with the current escape clause proceeding could only harm American steel product manufacturers. It must be remembered that the rate of import penetration for many manufactured steel product industries is far greater than for the domestic steel industry.

The second is a remedy against downstream dumping or subsidization, such as the House has already passed in H.R. 4784. I wish to emphasize, however, that a downstream dumping provision would solve only one aspect of the fundamental problem of differential steel pricing around the world. It would not, for example, overcome our competitive disadvantage in export markets.

If governmental intervention to help the U.S. steel industry is warranted, we would prefer a percolate-up approach to the problem, rather than the trickle-down approach embodied in the proposed steel quota. That is, actions to strengthen the viability of the U.S. industrial consumers of steel, and thereby strengthen the domestic demand for American steel mill products, would be far more effective in obtaining the desired goal. For example, a tax incentive for U.S. manufacturers of steel products to buy domesic, rather than foreign steel, is one method that might be considered.

Ultimately, Mr. Chairman, the competitiveness of America's steel product manufacturers depends, for the most part, on the availability of competitive prices for steel itself. How to bring that about represents a crucial policy challenge for our nation's industrial future. If we can buy steel at the same price as our Japanese counterparts, then we can beat them in the marketplace.

MEMBERS, STEEL PRODUCT MANUFACTURERS COMMITTEE

1. Mite Corporation, 200 Park Avenue, Suite 4118, New York, New York 10017 (Principal products: hardware products, industrial fasteners and other industrial components.)
2. Vermont American Corporation, 100 East Liberty Street, Louisville, Kentucky 40202 (Principal products: sawblades, taps, drills and other tools.)
3. Tube Forgings of America, Inc., 5200 N.W. Front Avenue, Portland, Oregon 97201 (Principal products: pipe fittings.)
4. Stanley Tools, Division of Stanley Works, 600 Myrtle Street, New Britain, Connecticut 06050 (Principal products: hand tools and power tools.)
5. Flowline, Inc., Post Office Box 860, New Castle, Pennsylvania 16103 (Principal products: corrosion-resistant fittings and flanges.)

6. Joy Manufacturing Company, One Oxford Centre, 301 Grant Street, Pittsburgh, Pennsylvania 15219 (Principal products: oil field equipment, including couplings, and other capital equipment for mining and industrial use.)

7. Pittsburgh-Des Moines Corporation, Neville Island, Pittsburgh, Pennsylvania 15225 (Principal products: steel fabricated products, including pressure vessels.)

Chairman GIBBONS. Well, I want to thank both of you gentlemen for helping us with this problem. I hope your words are widely heard.

When we started these hearings, we were just looking at this quota bill. Obviously, these hearings now are splashing over into something much more than that, in light of the decision of the ITC in the section 201 case. We may, therefore, have to extend some of this deliberation. Let me ask you, what impact is the ITC decision on injury going to have if the ITC proposal is followed by the President? What is going to happen to your industry?

It looks like the impact may be worse than this bill. I hate to expand this hearing to that, but I have people calling from my own district and saying "We were worried about the quota legislation, but we are now more worried about the heat that is going to be put on us as consumers of steel under the ITC's decision and the possible problems that it thrusts upon the President in making a decision as to what to do." Have you all thought about that?

Mr. GEORGE. Well, the prospects of the recommendation by the ITC are certainly right in line with what you have heard from the panel this morning, I think, Congressman, and we are very concerned. Quotas are, as we see it, the most damaging approach. We should not let any remedy negatively affect our industry's ability to compete in the world marketplace.

If we do so, we are only shifting the burden of unemployment from the steel industry to the steel processing industry in this country. If we do this, should we then pass protective quotas for the industries represented here? Should we, for example, pass protective measures for Caterpillar Tractor Co. and others like us? If so, how are such measures going to help us make sales in Saudi Arabia, where we are vying with the Japanese for sales?

Chairman GIBBONS. Thirty-eight percent of your sales are export sales?

Mr. GEORGE. That is right. If we embark on such a protectionist approach, where does it end? Coming from Central Illinois, I am very aware that the grain farmers are very concerned about quotas on steel imports. They have witnessed retaliation before, and they are very, very concerned about it. There are many people in this country that are vulnerable to what might happen if we take this approach.

Chairman GIBBONS. I like your analogy about pulling a plastic bag over your head to cure hay fever. I used to have hay fever. I am glad that mother didn't practice that or maybe I wouldn't have been here to harass witnesses this morning.

You are saying, in effect, that the steel industry, pushing its quota legislation, is about to kill its customer and then it won't have anybody to sell steel to?

Mr. BLINKEN. I don't think there is any question about it. I think everyone agrees that the total demand for steel in the United States will go down if the price goes up and if certainly, if the quality of steel—which is a very important issue that Mr. George touched on, there has got to be competition in quality as well as in price. It is very important.

Chairman **Gibbons**. That is the first time since we have started this hearing we have heard questions about quality and innovativeness in the product line.

Mr. **Blinken**. It is a very important issue because we have had the experience that buying Japanese steel, not because the price was any more, but because the quality was better in some instances, and ultimately the American mills have come around and tried to improve their quality after years of arguing that it was perfectly adequate.

We, the customer, said it wasn't. Competition is necessary to all of us. We need competition. We need a customer like Caterpillar beating us over the head to make us more efficient. Everyone is instinctively lazy, and you need somebody who has leverage who can tell you you had better get better.

Chairman **Gibbons**. I agree with you there.

Mr. **Blinken**. But I think any form of restraint, whether it be in quotas or in tariff restraint, is suicidal. There is no question about it. If one didn't concern himself about the welfare of the country overall, he could say, in one instance, we will have no steel industry, but we will have steel fabricators buying foreign steel and still in business and in the other instance, you are not going to have either one because the steel industry can't live without its customers and the customers can't live with higher prices, if we want to shut all the doors and all the windows and try to be a self sustained and self contained economy, which is not possible.

Chairman **Gibbons**. We tried that once before, and our world was a lot slimmer.

Mr. **Blinken**. There are misconceptions also about what makes for competitiveness. A large segment of Midwestern industry that suffered enormously in 1980, 1981, and 1982, and which is making a recovery now has wage rates that are substantially the same as wage rates in Japan. My wage rates in my Indiana plants are certainly within 10 percent of Japanese, and I think our productivity is much higher, but we can't control steel costs and we are out of the international ball game only because of the price we have to pay for steel.

Mr. **Frenzel**. The people in the United States who are selling you steel have labor costs of $23 an hour, more or less?

Mr. **Blinken**. Yes.

Mr. **Frenzel**. What is your labor cost?

Mr. **Blinken**. About $11, which is about what a Japanese steelworker makes.

Mr. **Frenzel**. And so your employees and those of your customers are being asked to take a bath so that we can sustain a couple hundred thousand $23-an-hour employees?

Mr. **Blinken**. I don't want to say that, although that is one conclusion.

Mr. **Frenzel**. I will say it again, and I have said it to the steelworkers.

Chairman **Gibbons**. It would be helpful if you said it.

Mr. Frenzel. The easiest way you can describe it is to say pull up the gangplank, I am aboard. I will keep my 23 bucks and let the rest of them be unemployed.

Mr. Blinken. Well, my people in Indiana, when they look at the situation—and they are pretty sophisticated and highly motivated people, when they look at it—they see themselves carrying these people on their own shoulders because that is the fact. Their jobs are dependent upon the productivity and the prices that are coming out of places where people with equivalent skills are getting paid about twice as much.

Chairman **Gibbons.** Talking about the quality of steel, to an average layman like me, steel is steel is steel. I realize that you have got a very complex product there. At one time it was the technological leader around the world yet, you have had a disastrous time caused by many things, like the overvalued dollar, and someone deciding that we couldn't sell pipeline-laying equipment to Europeans and things of that sort.

But tell me about quality. What difference does quality make in your purchase of steel?

Mr. George. I might just give you some firsthand examples. In my job, as steel commodities manager, I try to monitor how the product I buy performs in our manufacturing process.

When I go to one of our plants, I quite often visit the shop area and talk to the people who are taking the steel I buy and trying to make a product out of it. I talk to them. That is the best source of information I think I can find.

I will relate to you an experience that occurred to me in one of our plants. This is a unionized plant that happens to work on an incentive rate.

When I went out and spoke to the foreman, he said "Here, let me take you over to one of our guys who is taking this plate of steel that you buy and using a torch to burn the shape." He said, "Talk to the guy, go ahead." So I went over and talked to the guy who was doing the job, a union worker, and what he said to me was, "Look, we get steel coming in here from Japanese suppliers and we also get steel coming in from" I won't name the company, but it is a prominent U.S. steel company.

He said, "I am a union worker, and as far as I am concerned, I am pro U.S. products." But he says "I will tell you this. Don't send me any more of that U.S.-produced steel. I can take that Japanese plate, put it on here, turn on my torches, and I can burn that part out of here. I can make time on this son-of-a-gun, and I can make money doing this job. When I put American-made plate on here, my torch doesn't follow through. It goes off line. Inclusions inside the steel cause the flame to sear off course."

He said further, "The thing hangs up and I have to climb out on the plate with a sledge hammer and try to knock it off." He said, "I hate to say it, but buy the Japanese stuff as far as I am concerned."

That is a first-hand story. I have order books in case anyone is interested in these things. The track on this D10 machine is a component we call a track shoe. It is probably the highest tonnage component in a tractor of this sort. This design is something innovated by Caterpillar, we are the only company in the world that is producing this design.

This product is the largest trunk-type tractor produced in the United States. It has only foreign competition. We were not able to procure the track shoe material in the United States. There was no equipment in the United States capable of making it. We had to go overseas.

The same is true with the tubing in these large cylinders which supply the power which moves the blade up and down. We were not able to obtain this in the United States.

Chairman GIBBONS. Why?

Mr. GEORGE. In the case of the track shoe there was no equipment large enough in the United States and there were no suppliers in the United States producing cold drawn tubing of the size needed for these cylinders.

We had to go to Japan to buy this. Without the ability to do this, we would not have been able to produce the machines.

Mr. SCHULZE. Are they forgings?

Mr. GEORGE. In this case it is tubing. In this case it is a rolled section. As a result of introduction, we built a new factory in Peoria which certainly has added employment to the Peoria area. In other words, our ability to obtain these materials was essential to our being able to produce this product.

To go a little further with these track shoe components, to buy the rolled section that goes into these track shoes in many cases for our products we have to pay more for the raw material than competitive parts manufacturers are selling the finished product to our customers here in the United States. That leaves us very few options.

Chairman GIBBONS. Give me that one again. I am not sure I understood.

You are paying more for the raw materials than competitors will sell the finished product for?

Mr. BLINKEN. That is right.

Mr. GEORGE. That is right. Here in the United States in the field to our customers.

The steel amounts to about 70 percent of the cost of these components so again to reiterate what has already been said, that is the name of the game.

You have to be able to match your competitors' costs of raw materials or you go out of business. There really is not a lot of choice here.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. I am almost speechless, Mr. Chairman. We have heard the complaints about price and we know something about the cost elements in the U.S. industry compared to the others. I think this is the first direct allegation of quality problems, although we have been assured by domestic producers that their quality is "second to none."

Chairman GIBBONS. It might be fourth or fifth really.

Mr. FRENZEL. That is the subject to question.

We also have heard previous testimony about the cost to the consumer in the market, the 7 billion. As suggested earlier, this is the first pronouncement we have had that we would kill the market by enforcing quotas as well.

I suppose I am a good example of that. I have got a 1970 car that I drive back and forth to work and every time I look at a new car which I think would be a nice thing to buy, I decide, what the hell, it costs too much; the old ones runs. Who needs it?

We are using $23-an-hour steel built by $23-an-hour autoworkers. I don't know. I think your testimony is persuasive. It is compelling.

Chairman **Gibbons**. Mr. Schulze.

Mr. **Schulze**. Thank you, Mr. Chairman.

Mr. George, what is the import penetration in your industry? In other words, are not the Soviets starting to sell tractors here and others, Czechoslovakia and some others?

Mr. **George**. I am not aware of competition coming in from those two directions. However, Japanese manufacturers are certainly making increasing penetration into the U.S. market and we are very concerned about that.

Mr. **Schulze**. What is the market penetration? What percentage?

Mr. **George**. I am sorry, I could not relate that number to you because I am just not aware of it.

Mr. **Schulze**. But you don't think that it is important?

Mr. **George**. It certainly is, but as steel commodities manager, I just don't happen to know that information.

Mr. **Schulze**. What, in your opinion, would be a good market penetration or don't you care? In other words, if it gets 50 percent, 60 percent?

Mr. **George**. Could we provide that to you after the hearing? I am just not aware of the number.

Mr. **Schulze**. Sure.

In your view, is that relevant at all?

Mr. **George**. Certainly.

The U.S. market is—of course, the other 62 percent of what we are talking about selling in the U.S. market is extremely relevant.

Mr. **Schulze**. Has that figure held steady or are you not in the merchandising part? Is production steady or has it increased because of your exports or is domestic production dropping at the price of exports?

Mr. **George**. Well, we have had a pretty rough time over the past several years for several reasons, some of which have already been mentioned here. The yen/dollar relationship has been a large factor, the pipeline.

Mr. **Schulze**. Why would the yen/dollar relationship have an effect on your tractor business?

Mr. **George**. Because our primary competitor in the world market is a Japanese manufacturer. If the yen remains weak, as it has been, the relative production costs in Japan are less than they are in the United States. So when the yen is trading at lower levels it puts Caterpillar and other exporters who are vying for sales against the Japanese competition at a disadvantage.

Mr. **Schulze**. So it is not as much penetration of our market but your competitive situation in Europe or Saudi Arabia or some other third market?

Mr. GEORGE. This is true but a weaker yen also helps support the entry of Japanese manufacturers into the American market much the same as has been happening in other countries.

Mr. SCHULZE. In other words, you have direct competition in your products from Japanese?

Mr. GEORGE. Yes, sir.

Mr. SCHULZE. You don't have any idea what percentage that is?

Mr. GEORGE. I can tell you that it has been increasing seriously over the past 5 years.

Mr. SCHULZE. Perhaps if you paid your workers $5 an hour instead of $11 an hour you would be more competitive? Would that be the solution? That seems to be what we are hearing.

Mr. GEORGE. I believe you should have that discussion with our union people.

Mr. SCHULZE. I think what you are saying is, squeeze the steel industry but don't squeeze me? I am operating at peak efficiency. I am doing everything that is right and so let's blame somebody else.

I just wonder if in a year or two Caterpillar is going to be in here saying, wait a minute, market penetration is now up to 50 percent and you have got to make sure that the Government takes care of our jobs.

Mr. GEORGE. I believe if you check the record, you will find that Caterpillar has been extremely persistent in being a proponent of fair and free trade. I don't think you will find an instance when we have asked for protection and I don't anticipate that you will.

Mr. SCHULZE. That is why I am trying to get the market penetration.

In other words, you are saying, we will compete no matter what, and even with the yen/dollar relationship at what it is and, when we can't compete, we will be out of business.

Mr. GEORGE. I am just reminded here of the fact that mid-year last year we endured a 7-month strike in an effort to control rising labor costs. So I think we have certainly tried as best we could to help control costs. They are, of course, of continuing concern to us.

Mr. SCHULZE. What I am hearing is that you are saying to the steel industry, cut your wages and you are going to solve our problems or am I not hearing the right message?

Mr. GEORGE. No, I don't believe I said that.

Mr. SCHULZE. That was the inference from one of my colleagues.

Mr. FRENZEL. Would the gentleman yield?

Mr. SCHULZE. I will be happy to yield.

Mr. FRENZEL. I guess there are a lot of ways to do it. I think what we are talking about is raising productivity and being competitive in the marketplace. I think that it has been quite clear that American steel companies are not competitive in the world marketplace.

There are lots of ways you can improve it.

Mr. SCHULZE. Let's take that and look at it for a minute. We have a worldwide overcapacity of steel, some of which was created by international lending institutions which went to areas that export U.S. advanced technology in steelmaking capacity and created this worldwide overcapacity.

As a consequence, the other governments are saying, well, we have to produce this and if we cannot sell it at a fair price, we have got to dump it or artificially reduce our prices and for social reasons, so we can keep people employed, we can take a little loss on the steel rather than lay people off.

At the same time, they are buying agricultural products from us so that the farmer is saying, look, we don't care if they dump steel products to get hard currency so that they can buy our agricultural products.

I see a conflict coming. Maybe it is already here, between the industrial base and the agricultural community in this country. This split is not going to be good for anyone and I also don't know whether it is really good to, in effect, point the finger and say the steel industry is to blame for all of our problems.

I think the steel industry is modernizing as rapidly as they possibly can. I think that we do have an international market. I have one other question about the quality you were discussing. With the way you presented that, you led this panel to believe that all American steel is inferior. Did you mean to leave that impression?

In other words, you highlighted what I presume was one isolated conversation with one worker and left the impression with us that this is sort of common and routine.

I would imagine that is an isolated incident so I am sure that I can get a witness somewhere to come in here and say that they got some Japanese steel which had faults in it. When you are producing large quantities of steel, quality control is very, very difficult, but it is something that is stressed by most producers, but something does get by now and then.

It is not intentional and nobody deliberately tries to do it, of course, but did you mean to leave the impression that that was common practice?

Mr. GEORGE. First of all, I wish to say that we certainly are in support of a strong, viable steel industry in this country. Three-quarters of our assets are here in the United States. Three-quarters of our employees, and we don't desire to change that. So we desire a strong, viable steel industry.

Our quarrel here is with the direction that is being taken to try to solve that problem. We use an awful lot of our steel from U.S. suppliers with no problems at all. However, there certainly is a significant number of instances. And I can relate more if you desire, where there are some quality differences that are very important to us. They do affect our manufacturing costs. If we don't have the ability to purchase higher qualities and different product offerings, it could affect our ability to produce a product in this country at a competitive cost.

Mr. SCHULZE. Certainly, and the steel industry, I think, is striving for high quality, investing more money into equipment which will give a better, purer, cleaner steel.

Could you state that you have never had a quality control problem with a piece of imported steel?

Mr. GEORGE. I cannot recall an instance of a quality control problem on a Japanese product.

Let me expand on that because I think it in a sense underscores what I have been saying.

In one instance we desired to try some Japanese steel on a critical component in one of our diesel engines. We talked to them about the necessity to have extremely clean steel in this component. When the first shipments arrived, we had extreme difficulty trying to machine those components. On investigation, we found out that the sulfur contents of that steel were at extremely low levels, much lower than we had even dreamed were possible with advanced technology.

Sulfur is usually considered an impurity. However, it does help in small amounts to improve machinability. What happened is, we had so sensitized the Japanese to the need for high quality in this area that they had gone well beyond what we even thought was possible—so far beyond that it gave us a problem in another area. It turned out to be just a communication problem. Once we understood each other on this whole matter, we had no further problems.

Mr. **Schulze**. Is the steel that goes into the Japanese tractors that they sell over here better? Would you say it is a better product?

Mr. **George**. We have not dissected it to know what is in there on that kind of a level, but I must say in the anecdote that I covered with you here on the burning of the shapes out of the plate, the answers to that problem lie in the processing. I have been in quite a few of the Japanese steel mills. I am an engineer by education and I have yet to see a plate producer in the country of Japan that does not automatically desulfurize plate. It is part of the process. It is built into the process. It is an integral part.

Here in the United States, if you desire to get lower than normal sulfur content, you have to pay extra for that over here. It just comes as part of it there.

Mr. **Schulze**. Do you have any idea of the average cost of your average tractor or selling price?

Mr. **George**. This little model here by the time you get the equipment on it in our largest model would cost three-quarters of a million dollars.

Mr. **Schulze**. $750,000.

Any idea of the weight?

Mr. **George**. Probably in the neighborhood of between 350 and 500 thousand pounds.

Mr. **Schulze**. How much of that is steel? Any idea?

Mr. **George**. By weight, about 65 percent.

Mr. **Schulze**. And what are you paying for steel, approximately?

Mr. **George**. That is confidential information and if you desire to have information we can provide it to you confidentially.

Mr. **Schulze**. Roughly in my head it seems to me that the actual amount of steel as related to the selling price is fairly small though.

Mr. **George**. Well, it is 25 percent of the cost of production materials.

Now, of course, we have a few other materials other than strictly related production expenses.

Mr. **Schulze**. Well, it just seems to me you would have to have an impact on that $750,000 product.

Mr. **George**. We talked in terms of what we have to do to become competitive in the world marketplace. We have to get the cost of our product down 22 percent.

We are talking here—and I would quote Mr. Don Trautline, the chairman of the board of Bethlehem Steel, who was quoted as saying that the price of steel is likely to go up about 10 percent as a result of quotas.

Mr. **Schulze**. I don't know if that is necessarily true. The steelworkers have made sacrifices along the line. Management is making sacrifices. I think it is vital that we retain steelmaking capacity in this country.

I think if we start eliminating and have nothing but minimills, and we get rid of the large, integrated mills, it reaches the point where you are dependent upon foreign steel for downstream production.

I am sure you are aware that suddenly the price will go up. You are subject to all kinds of vagaries of transportation and deliveries and then quality productive capacity and other things.

If we could work together, it seems to me, in a reasonable way, the steel industry has not all been simon-pure, they have made mistakes, been ignorant, and in instances have not reinvested where they should have.

I am not saying they are all simon-pure. But is important to us as a Nation to have a substantial, reliable capacity of steel production.

What we are trying to do is to reach that without destroying your markets, destroying your ability to sell overseas. I think that is the direction we are going.

I thank you, Mr. Chairman.

Mr. **Frenzel**. Mr. Chairman, I think that through my fault, we have begun to make this look like a pick on the steel companies situation. I want to be sure that that is not the intention of the witnesses.

You are testifying against a bill, against a kind of solution to an industry problem of which you disapprove. Is that true, Mr. Blinken?

Mr. **Blinken**. We have one concern. The excess steel production capacity around the world is chronic, endemic, it is going to be with us for a long time. I don't care what the price of steel is as long as the price to me is the same as anyone else.

If it is twice as much as it is now, it may dampen demand a little bit, but basically, I am still competitive. We are not trying to find fault, a scapegoat, or accusing somebody of responsibility for the situation.

The situation exists, it is here, there is nothing any of us can do to change the situation. Steel costs more here than it costs anyplace else in the world, and is going to cost even more in the future, if there is further restraint on steel.

We want a solution to the problem which does create a healthy steel industry. We need it. We recognize immediately, if we don't have a healthy steel industry in the United States, we are going to be victimized by the people we buy it from.

We have had the experience, when steel was in short supply in 1974, and I went to Japan to try to get more steel, they steered me right to their nut manufacturers. I am in the nut business.

They said, "We will have a lot of trouble finding more steel for you, but we can find you a lot of nuts." We said, "We are not importers, we are manufacturers."

I know if we cannot get steel in a competitive environment, we are going to find industry in the United States going out of business on the same basis. We are not trying to accuse anybody. We are trying to find a solution which will give us the same opportunity to buy steel at the world market price that people in other countries have.

I don't think a quota is the way you solve that problem. Robert Crandle, who, I think, was on the Treasury staff at the time trigger pricing was put into effect, wrote a very interesting analytical paper on the effect of trigger pricing.

It has been republished by Brookings recently. And it points out that we are trying to go completely contrary to every normal business practice. But when business gets bad, you improve it by raising your prices.

It just doesn't make any sense. This is not the answer to the problem we have. We are all in the same boat, we have the same problem. The steel companies' problem is our problem.

But the solution that is proposes is not the right solution.

Mr. **FRENZEL**. Thank you. I have the same feeling. We all want a good, strong steel industry, we want to help them. Whose ever fault it was, they are in the pickle, I would say to my friend from Pennsylvania, I think a good deal of the steel industry's problems stems from Federal Government interference over a long period of time, particularly in pricing policy.

But whatever it is, the answer that is before this committee may be the most politically and immediately possible solution for the industry—I am in agreement with the witnesses that it is not. I yield my time.

Mr. **SCHULZE**. If the gentleman will yield just briefly.

The steel industry has been aware of this problem for quite some time. It has been trying to get a little attention to try to work it out before it reached the crisis stage.

But I am not being political either—but in the current administration, the problem has been kind of swept under the rug.

I think we can do something, sit down and arrive at something in a rational way for them to once again become leaders of the world in production of steel.

Chairman **GIBBONS**. Let me say this: I don't want this to develop into an intramural fight up here. I have been through steel mills in four continents. There is no way on Earth that the American steel mill, unless it becomes so highly automated that people just vanish from the scene, can compete when they pay the highest wages in the world, higher than any other American wage, about 175 percent of the average American industrial wage.

They have not gotten the message. There is no way they can compete. They have got low technology compared to the rest of the world. They have got the highest wage costs compared to the rest of the world.

And there is just no way they can compete. Now, they are trying to pull down the whole system in America—that is, that you earn your way.

You know, this is the most serious economic problem that America faces today. You cannot pay $22-plus an hour, almost twice as much as the average American industrial wage paid to other American workers who are just as exposed to hard work and to noise and to heat, you just cannot sustain such high costs for a factory that is not very productive. It takes more man-hours, at higher costs per hour, to make a ton of steel in the United States than it does in most of the other countries around the world. You cannot do it and remain competitive. It cannot be done.

And now, we have a pincer play coming into being. We have this bill here with 200-and-some cosponsors on it that will move like a dose of salts through the Congress. And we have other developments occurring within the administration, as a result of the ITC decision in the 201 case.

So, American steel and its allied unions may end up destroying the greatest industrialized nation on Earth. That is the issue.

You know, you have to talk about it. It is going to destroy Caterpillar, it is going to destroy the auto industry. It is narrow, it is selfish, it is un-American for them to practice that kind of hoggery.

The whole future of American basic industry is right before us on this table here today, right now. And before the President of the United States in the decision he has to make between now and September 24.

America better wake up. This morning we have heard about a few of the problems we face.

Over 80 percent of the steel that is made in Japan is continuously cast; 60 percent of the steel that is made in Europe is continuously cast. Only a third of U.S. steel is continuously cast.

Furthermore, as the gentleman from Caterpillar said, the Japanese automatically desulphurize their product. They don't put a bunch of junk out on to the market that you cannot cut with a torch, because the torch gets deflected all over the place.

One of you mentioned that even the minimills are more competitive in quality than these large dinosaurs we continue to nourish—dinosaurs as far as management is concerned, and dinosaurs as far as labor is concerned.

You know, this is a little bitty hearing in the bottom of a basement of the Rayburn Building today. But America's industrial future lies upon the decision that we must make, and the President of the United States must make within the next month and a half.

I appreciate you all coming here today. We have got a serious problem on our hands. Thank you very much.

Tubular Corporation of America; Berg Steel Corp.; and Pinole Point Steel Co.

Let me say to Mr. Alpert and the other gentleman from Oklahoma on the next panel, Mr. Klein, that Congressman Jones had a long talk with me last night about the problems you have in your industries. He also took the time to write a detailed letter about that. I ask unanimous consent that Congressman Jones' letter be able to appear in the record at the end of your testimony. [See p. 388.]

Mr. SCHULZE. Mr. Chairman, may I welcome Michael Calhoun, a former staff member? We have been following his career with a great deal of pride. We are thrilled and honored to have him back.

Mr. CALHOUN. Congressman, I certainly appreciate that. You may want to retract that before the end of my testimony.

Chairman GIBBONS. Mr. Calhoun, we do welcome you back. We remember your service here, and your distinguished service also on the International Trade Commission.

Mr. Alpert, you are first on the list. Go ahead.

STATEMENT OF ROBERT ALPERT, CHIEF EXECUTIVE OFFICER, TUBULAR CORPORATION OF AMERICA, INC.

Mr. ALPERT. Good morning, Chairman Gibbons and members of the subcommittee. My name is Robert Alpert. I am the chief executive officer of Tubular Corporation of America, Inc., which is a company in the "processor" sector for the production of oil country tubular goods, comprised of casing, tubing and drill pipe.

Our production facility is located in Muskogee, OK on the Arkansas River, and our principal administrative and sales office is located at 2350 North Belt East, Houston, TX.

I appreciate the opportunity that the subcommittee has provided to me to appear this morning. I wish to address my remarks to H.R. 5081, the Fair Trade in Steel Act, which would limit all steel imports to 15 percent of the domestic market for a 5-year period, and to other trade actions taken by the executive branch, which have created significant difficulties for TCA.

For example, and I will discuss this point in more detail later, our continued viability as an OCTG processor has already been adversely affected by the pipe and tube restraints negotiated in October 1982 by the United States and the EC, restricting access to semifinished tubular shells known as "green tubes," which are our basic raw material, and which are not domestically available to TCA.

H.R. 5081 threatens to aggravate this already-dire situation by closing off all other potential sources of green tubes.

However, with appropriate amendment, making clear that green tubes, as a semifinished product, will not be subject to restriction under any quota bill, H.R. 5081 could be helpful, rather than damaging, to the domestic processor sector.

Oil country tubular goods traditionally have been produced in the United States by the major steel companies, who are integrated in their production of OCTG from steelmaking through all intermediate production steps to the final production of the finished oil country tubular goods.

The processor sector, on the other hand, starts with a semifinished green tube in the production of oil country tubular goods.

Emergence of the processor sector was prompted in large part by supply availability and quality problems encountered by the U.S. oil industry in purchasing OCTG from the domestic integrated steel mills.

The OCTG processor industry, utilizing moden equipment and intensive inspection procedures, has developed in response to market demand and provides a domestic source of extremely high quality OCTG for the oil exploration industry.

While OCTG can be produced and sold without American Petroleum Institute certification, the API mark is important because it certifies that OCTG meets certain industry recognized standards.

In recognition of the valuable role to be played by processors in producing OCTG, the American Petroleum Institute approved a special processor category for API licensing in 1982.

There are approximately 1 dozen companies in the domestic industry who have obtained API processor licenses. These developments demonstrate, I believe, that the processor sector is a dynamic, innovative segment of the U.S. steel industry.

The emergency of the processor sector is the type of development that will keep the steel industry in the United States competitive on a world scale. The domestic processor sector has proven its ability to produce OCTG equal in quality to the Japanese, who generally are regarded as quality leaders.

We are the highest-quality producer serving the U.S. market. There are statistics on this, which are maintained by the major oil companies, and by a very significant multiple factor, our performance has been the best in the industry, including competition with the Japanese producers.

Initially, in making our $50 million investment in the Muskogee plant and initiating production, TCA planned to draw upon both domestic and imported sources of green tubes. We have solicited price quotations for green tubes from all domestic integrated steel producers that make seamless tubing and casing.

However, these companies have indicated little or no interest in selling green tubes to TCA, generally refusing even to give price quotations. Those who were willing to quote——

Chairman GIBBONS. Would you repeat that? That has happened out in my area, too. Would you just go back over that again for the record?

Mr. ALPERT. In general terms, we have gone to all the domestic steel producers and asked them to sell us green tubes, and they have either been unable or unwilling to sell us.

Principally, their motivation is to control the sale of the product into the marketplace and avoid selling to people who would compete with them in that product in the marketplace.

Chairman GIBBONS. Will they put the refusal in writing?

Mr. ALPERT. Some of the refusals are in writing. Some of them have even gone as far as explaining the background that I just cited.

Chairman GIBBONS. Have you thought about using the antitrust laws on them?

Mr. ALPERT. Right now, we are fighting this problem on so many fronts, that certainly is one consideration.

Chairman GIBBONS. Go ahead.

Mr. FRENZEL. Would the chairman yield?

Chairman GIBBONS. Sorry I interrupted you. But I have heard the same kind of remarks from constituents in my own area for years. They can't get the suppliers to answer the phone calls.

Mr. ALPERT. I was up here about 1 year and 3 months ago, speaking about this same subject, and the situation has just gotten one heck of a lot worse.

Mr. FRENZEL. That is the point I wanted to make. Mr. Alpert gave his testimony here 1 year ago. We were later assured by some steel companies there was some terrible misunderstanding, that certainly their products were offered for sale.

And you have not been offered any products for sale?

Mr. ALPERT. Well, we have been able actually to buy a very small quantity of green tubes from one domestic producer. We ran a trial quantity from this producer, and we have been waiting 3 months now for a second quote.

They are supposed to be a producer in need of business, yet they don't seem very anxious to serve us. We have paid our bills on time, so I am somewhat surprised.

Mr. PEASE. Mr. Chairman, I wonder if Mr. Alpert would be willing to provide some of that correspondence to the committee for the record.

Mr. ALPERT. Absolutely.

Mr. PEASE. We would appreciate that.

Chairman GIBBONS. Any memorandum of telephone calls, anything else. These people love to do business over the telephone. Sometimes they just don't answer the phone.

Mr. ALPERT. We have submitted a volume of commercial contacts between——

Chairman GIBBONS. They just don't return the calls, sales people don't return their calls.

Mr. ALPERT. We have submitted some of this information to the ITC, and we will submit a duplicate to this committee.

[Information was supplied to the subcommittee.]

Mr. ALPERT. As a result of the unavailability of green tubes, we are presently totally dependent on imports. Obviously, continued access to foreign sources of supply is critical to the future of our young company.

I would like to stress that TCA's Muskogee plant merely constitutes the first phase of TCA's investment for production of oil country tubular goods. As the next phase, TCA has developed a plan for construction of a $300 million manufacturing facility which is fully integrated to produce our own green tubes.

The design of this plant would make us the lowest cost, highest quality producer of these products in this country.

The facility will be a steel minimill, which when we manufacture these products, our raw material is steel scrap or prereduced iron ore.

Until such time as the facility is constructed and in operation, which is estimated to take 3 to 4 years, TCA must have access to an interim supply of its raw material.

Any restriction on green tube imports, therefore, has only a harmful effect on the existing TCA investment at Muskogee, but will also jeopardize our future plans.

I would like to detail some of the problems we have encountered to date in our efforts to secure imported green tubes.

The U.S.-EC Pipe and Tube Arrangement I mentioned earlier, which is the subject of another bill, H.R. 3398, has already had a serious negative effect on the ability of TCA and other companies in the processor sector to obtain this essential raw material.

But for that arrangement, I am certain that EC suppliers would provide a steady source of green tubes for U.S. processors. However, with the arrangement in place, EC producers have been reluctant to make commitments to sell green tubes to the United States.

Since the arrangement restricts the level of European pipe and tube exports to the United States, EC producers prefer to sell the higher value-added finished products, rather than the low value-added green tubes.

In its present form, H.R. 3398, which was not passed by the House, but was tendered to the Senate and had the steel pipe and tube arrangement tacked on there, would only make our situation much worse.

Providing statutory enforcement of the informal pipe and tube arrangement with the European Community would result in even more rigid restrictions on pipe and tube trade, effectively closing any possibility to obtain green tube imports from the European Community.

Moreover, steel exports from Japan are restricted pursuant to informal understandings between the U.S. Government, through the office of the U.S. Trade Representative, and the Japanese Government.

Under these agreements, the Government of Japan voluntarily restricts exports of steel products to the United States. The agreements between USTR and the Japanese Government are not set forth in writing. However, USTR and the Japanese Government hold periodic consultations in which steel trade is discussed, giving substance to these restraints.

The existence of this voluntary restraint program recently was publicly acknowledged by the Department of Justice in connection with its review of the acquisition of Republic Steel Corp. by LTV Corp.

Last February, representatives of TCA met with a steel expert at USTR, and unfortunately received very little understanding of our problem there.

After a letter was submitted by the congressional delegation from Oklahoma, on May 24, Ambassador Brock rejected TCA's request for exclusion of green tubes. In justifying this position, the letter stated, "It appears to us that TCA's difficulties stem primarily from the unprecedented conditions in the OCTG market and not from any Government action."

This statement shows a fundamental misunderstanding by USTR of the issued involved. TCA's problems do not stem from conditions in the oil country tubular goods market, but from a lack of raw material availability.

We can't get it stateside, and they are taking actions to prevent us from getting it abroad.

Chairman GIBBONS. May I interrupt here and say—not only to you, but for the record—we have carried on some written, as well as some verbal, conversations with Ambassador Brock, and with his office.

And he denies that there is any kind of agreement between the U.S. Government, formal or informal, and Japan. But yet, I constantly hear that there is an arrangement. Mr. Brock is a very honorable and decent man, who I highly respect.

But I want to ask you, how—do the Japanese refer to an arrangement?

Mr. ALPERT. I think I have to go back to my comment. The existence of such understandings have already been acknowledged by the Justice Department during the merger of J&L, and Republic Steel.

Chairman GIBBONS. Is that right? I wasn't aware of that.

Mr. ALPERT. Yes.

Chairman GIBBONS. Well, it sounds like we may have some classic antitrust cases going here. Maybe even some Government officials involved. I want to remind all Government officials, they are not immune from our criminal laws and our antitrust laws.

And I want to put myself on record right now. Sam Gibbons will prosecute any of them that he finds are going outside of the power that is granted to them by this Congress to negotiate agreements—informal, under the table, or any other kind of agreement.

I am upset about it. I don't want any more of this market rigging. I have no evidence other than the evidence cited here, yet I constantly hear about these informal agreements. Government officials deny that they exist but I constantly hear about them. I am upset about it, I am going after them, and I want everybody to understand that. I want it to be clear in the record, and to anybody else in this room. If there is any more market rigging around, you have got somebody here that is going after you.

Mr. ALPERT. TCA has recently learned that the Japanese pipe producers will ship no green tubes to the U.S. market for the rest of the year, prefering to fill their pipe and tube allotment under the voluntary restraint arrangement with shipments of the highest value.

Yet another problem faces TCA in its search to obtain a reliable, uninterrupted source of green tubes. Several domestic integrated producers of finished OCTG filed antidumping and countervailing duty petitions in late June against imports of OCTG from five countries including Mexico and Spain, substantial suppliers of green tubes to TCA.

Although these petitions specifically describe the merchandise subject to investigation as "oil well tubing, casing and drill pipe," all of which are finished products, petitioners claim that semifinished green tubes are properly within the scope of the petitions.

TCA does not object to legitimate use of the trade laws to seek relief from imports that are a genuine source of injury, but this latest effort by the domestic industry to use unfair trade practice petitions to deny processors, such as TCA, access to imported green tubes smacks of a desire to limit domestic competition in the marketplace.

Quite simply, petitioners are well aware that stemming the free flow of green tube imports would be tantamount to chopping the lifeline of TCA and other domestic processors.

Without green tubes, TCA cannot continue to function in the near term, nor will it be able to fulfill its plan for backward integration.

Petitioners would be relieved if TCA was never able to build its integrated pipe and tube facility. They do not relish the thought of having to compete in the future with a low cost, efficient minimill that will be capable of offering quality finished products superior to those produced by most domestic manufacturers.

Surely, the domestic industry cannot have it both ways. It is unwilling or unable to supply green tubes while it seeks to bar processors from alternative foreign sources.

I believe the attitude of the domestic industry on this point is best reflected in a memorandum circulated by Lone Star Steel in connection with hearings before this subcommittee on the Fair Trade in Steel Pipe and Tube Act in 1983.

The memorandum, which argued that green tubes should be subject to import limits under the proposed legislation, acknowledged that domestic producers are unwilling to sell green tubes to the processor sector, stating:

> The claim by green tube producers of semifinished steel tubular products are unwilling to supply them with their needs begs the question. Most U.S. producers are also finishers of their products. They only turn to specialty companies, like the finishing companies, when they are not able to do the work themselves.
>
> Right now, there is a tremendous excess of steel capacity including finishing capacity in the United States. U.S. manufacturers are not going to keep their finishing facilities shut down just to supply green tube finishers with the spotty demand these companies currently have for product. U.S. integrated companies want to first put all of their people back to work on a full-time basis.

Our demand is very, very consistent. Our market participation is consistent. Our inability to get green tubes from these domestic producers is, unfortunately, also consistent.

The above quote confirms that the integrated producers do not want competition in the production of finished oil country tubular goods from companies such as TCA.

When we made this $50 million investment, relying on the availability of green tubes, now we find that a change in national policy puts us in an extremely disadvantaged position. Fairness demands that TCA be permitted to continue in business by means of exemption from restrictive trade measures now in effect, and those currently under consideration by Congress.

I offer our problems for your consideration. The question remains, however, what can be done to insure that TCA has the necessary raw materials it needs to remain in business?

This answer is simple: Exempt green tubes from the scope of any restrictive measures such as H.R. 5081 or H.R. 3398 that may be enacted on imports.

I strongly urge that Congress in considering H.R. 5081 and other trade measures adopt appropriate amendments to exclude semifinished green tubes from import restraints.

Further, I propose that any exemption be limited in its coverage. As I have said today, TCA needs an interim supply of raw materials. There are all kinds of precedents where the major integrated producers have gone out to foreign sources and contracted for interim supply.

Why is it OK for the big guys to do it, and not OK for the little guys? As I have said today, we need some help here. Accordingly, an exemption for green tubes tailored to meet the specific circumstances of interim supplies, supplying similarly situated API licensed processor.

Thank you for permitting me to express my views and concerns of vital importance to TCA.

[The prepared statement follows:]

STATEMENT OF ROBERT ALPERT, CHIEF EXECUTIVE OFFICER, TUBULAR CORPORATION OF AMERICA, INC.

Good morning, Chairman Gibbons and members of the Subcommittee. My name is Robert Alpert. I am the Chief Executive Officer of Tubular Corporation of America, Inc., which is a company in the "processor" sector for the production of oil country tubular goods, comprised of casing, tubing, and drill pipe. Our production facility is located in Muskogee, Oklahoma on the Arkansas River, and our principal administration and sales office is located at 2350 North Belt East, Houston, Texas.

I appreciate the opportunity that the Subcommittee has provided to me to appear this morning. I wish to address my remarks to H.R. 5081, the "Fair Trade in Steel Act," which would limit all steel imports to 15% of the domestic market for a 5-year period, and to other trade actions taken by the executive branch, which have created significant difficulties for TCA. For example, and I will discuss this point in more detail later, our continued viability as an OCTG processor has already been adversely affected by the pipe and tube restraints negotiated in October, 1982 by the United States and the EC, restricting access to semi-finished tubular shells known as "green tubes," which are our basic raw materials, and which are not domestically available to TCA. H.R. 5081 threatens to aggravate this already dire situation by closing off all other potential sources of green tubes. However, with appropriate amendment, making clear that green tubes, as a semi-finished product will not be subject to restriction under any quota bill, H.R. 5081 could be helpful, rather than damaging, to the domestic processor sector.

Oil country tubular goods traditionally have been produced in the United States by the major steel companies, who are integrated in their production of OCTG from steelmaking through all intermediate production steps to the final production of the finished oil country tubular goods. The "processor" sector, on the other hand, starts with a semi-finished green tube in the production of oil country tubular goods.

Emergence of the "processor" sector was prompted in large part by supply availability and quality problems encountered by the U.S. oil industry in purchasing OCTG from the domestic integrated steel mills. The OCTG processor industry, utilizing modern equipment and intensive inspection procedures, has developed in response to market demand and provides a domestic source of extremely high quality OCTG for the oil exploration industry.

While OCTG can be produced and sold without American Petroleum Institute certification, the API mark is important because it certifies that OCTG meets certain industry-recognized standards. In recognition of the valuable role to be played by processors in producing OCTG, the American Petroleum Institute approved a special processor category for API licensing in 1982. There are approximately one dozen companies in the domestic industry who have obtained API processor licenses. These developments demonstrate, I believe, that the processor sector is a dynamic, innovative segment of the United States steel industry. The emergence of the processor sector is the type of development that will keep the steel industry in the United States competitive on a world scale. The domestic processor sector has proven its ability to produce OCTG equal in quality to the Japanese, who generally are regarded as quality leaders.

I would like to briefly describe the operations of an OCTG processor, with reference to my own company, Tubular Corporation of America. TCA was formed in 1980 specifically for the purpose of producing OCTG, and we have built a $50 million plant at Muskogee, Oklahoma, which entered into operation in mid-1982. Our facility utilizes state-of-the-art procedures; and the most modern equipment. For example, we have over 20 computerized operations in our plant, to ensure maximum uniformity and quality of our product. Yet, notwithstanding this highly automated equipment, OCTG production remains very labor intensive. Our Muskogee plant employs nearly 500 people.

The green tubes purchased by TCA come directly from the seamless mill hotbed of an integrated steel producer; while the tubes must meet exacting chemistry requirements, they are a true semi-finished product and require no further finishing by the supplier before shipment to TCA. As purchased, the green tubes are not satisfactory for OCTG end uses, but are suitable only as raw material for further processing.

In the first stage of its production, the TCA heats the low grade semi-finished pierced tubular shells to a very high temperature, transforming them to the austenitic state. Next the austenitic shells are quenched, which changes the steel from austensite to martensite. The martensitic shells are then reheated for tempering.

Finally, the quenched and tempered shells are conveyed to a multi-roll straightener/sizer at a high temperature. Through this combination of metallurgical and physical changes, the green tube is transformed into a precisely dimensioned product with mechanical and physical properties entirely different from those of the raw material. The resulting tubes are then threaded, finished, and subjected to rigorous testing. This testing is an integral and very important part of the production process, since it prevents the release of any defective tubes into the market, thus maintaining the standard of quality our customers have come to expect from TCA.

Initially in making the investment in the Muskogee plant and initiating production, TCA planned to draw upon both domestic and imported sources of green tubes. We have solicited price quotations for green tubes from all domestic integrated steel producers that make seamless tubing and casing. However, these companies have indicated little or no interest in selling green tubes to TCA, generally refusing even to give price quotations. Those who were willing to quote were willing to do so at prices in excess of the market price for finished products. Several producers could not meet our rigid quality requirements. It became readily apparent that domestic integrated steel companies would not or could not supply green tubes to TCA. As a consequence at the present time we are totally dependent on imports. Obviously continued access to foreign sources of supply is critical to the future of our young company.

I would like to stress that TCA's Muskogee plant merely constitutes the first phase of TCA's investment for production of oil country tubular goods. As the next phase, TCA has developed a plan for construction of a $300 million manufacturing facility to become a fully integrated producer. The facility will be a steel "minimill," which will manufacture our own semi-finished green tubes, using scrap as the raw material, for TCA's operations at Muskogee. Until such time as the facility is constructed and in operation, which is estimated to be approximately 3–4 years, TCA must have access to an interim supply of green tube imports in order to operate its Muskogee plant. Any restriction on green tube imports, therefore, has not only a harmful effect on the existing TCA investment at Muskogee, but also will jeopardize our future investment plans.

I would like to detail some of the problems we have encountered to date in our efforts to secure imported green tubes. The U.S.-EC Pipe and Tube Arrangement I mentioned earlier, which is the subject of another bill, H.R. 3398, has already had a serious negative effect on the ability of TCA, and other companies in the processor sector, to obtain this essential raw material. But for that Arrangement, I am certain that EC suppliers would provide a steady source of green tubes for U.S. processors. However, with the Arrangement in place, EC producers have been reluctant to make commitments to sell green tubes to the United States. Since the Arrangement restricts the level of European pipe and tube exports to the United States, EC producers prefer to sell the higher value added finished products, rather than the low value added green tubes.

The problem of access to green tubes under the United States-European Community Arrangement does not result from "upgrading" of imports as compared with historical trade patterns. Green tubes are a new item of trade, resulting from the emergence of the U.S. processing sector. Therefore, freezing trade into traditional channels would not protect the processor sector, but would serve to deprive this segment of United States industry of the raw materials it must have to function.

In its present form, H.R. 3398, passed by the House and now ripe for consideration by the Senate, would only make this situation worse. Providing statutory enforcement of the informal Pipe and Tube Arrangement with the European Community would result in even more rigid restrictions on pipe and tube trade, effectively closing any possibility to obtain green tube imports from the European Community.

Indeed, it must be noted that the EC Arrangement on pipe and tube ignores certain key facts: (1) green tube imports are absolutely essential to the survival of TCA and other processors; (2) green tubes do not compete with any domestic product, since green tubes are not available in the domestic market; (3) green tubes have never been the subject of any antidumping or countervailing duty investigations with regard to EC member nations and therefore should not have been included within the scope of an arrangement concluded to settle EC antidumping and countervailing duty cases; and (4) domestic producers should not be permitted to use trade restrictions on green tube imports to bar competition in the finished oil country tubular goods market by TCA, which is a U.S. producer of these products. Our efforts at Commerce to obtain modification of the Arrangement on these facts have been unsuccessful.

Moreover, steel exports from Japan are restricted pursuant to informal understandings between the United States Government, through the office of the U.S.

Trade Representative, and the Japanese Government. Under these agreements, the Government of Japan voluntarily restricts exports of steel products to the United States. The agreements between USTR and the Japanese Government are not set forth in writing. However, USTR and the Japanese Government hold periodic consultations in which steel trade is discussed, giving substance to these restraints. The existence of this voluntary restraint program recently was publicly acknowledged by the Department of Justice in connection with its review of the acquisition of Republic Steel Corporation by LTV Corporation.

Last February, representatives of TCA met with a steel expert at USTR to seek an exclusion of green tubes from the voluntary restraints with Japan. Following that meeting, members of the Oklahoma Congressional Delegation wrote to Ambassador Brock pointing out the problem that had been brought to their attention by TCA and asking that the problems of TCA and other companies in the processor sector be taken into account in USTR's steel agreement consultations with the Government of Japan. In late February, TCA representatives again met with steel experts at USTR. As at the first meeting, the USTR officials were noncommital.

Ambassador Brock finally responded to the Oklahoma Congressional Delegation letter on May 24, 1983, rejecting TCA's request for exclusion of green tubes. In justifying this position, the letter stated: "It appears to us that TCA's difficulties stem primarily from the unprecedented conditions in the OCTG market and not from any U.S. Government action."

This statement shows a fundamental misunderstanding by USTR of the issues involved. TCA's problems do not stem from conditions in the oil country tubular goods market, but from a lack of raw material supply. TCA is eager to compete and sell in the market for oil country tubular goods, as a U.S. producer. However, it is being restricted in its ability to participate in this market not by conditions in the market for oil country tubular goods, but rather by restraints on imports of green tubes, which are not available from United States sources. Ambassador Brock's letter further indicated that he thought trade restraints were necessary "for investment and modernization programs that are critical to the long-term vitality of the U.S. steel industry." TCA has recently learned that Japanese pipe producers will ship no green tubes to the U.S. market for the rest of the year, preferring to fill their pipe and tube allotment under the voluntary restraint arrangement with shipments of the highest value finished oil country tubular goods.

Yet another problem faces TCA in its search to obtain a reliable, uninterrupted source of green tubes. Several domestic integrated producers of finished OCTG filed antidumping and countervailing duty petitions in late June against imports of OCTG from five countries including Mexico and Spain, substantial suppliers of green tubes to TCA. Although these petitions specifically describe the merchandise subject to investigation as "oil well tubing, casing and drill pipe," all of which are finished products, petitioners claim that semi-finished green tubes are properly within the scope of the petitions.

In fact, at the preliminary ITC proceedings, TCA spent considerable time and effort to explain the numerous factors that clearly distinguish raw green tubes from finished OCTG. Notwithstanding these efforts, the ITC has reserved judgment as to whether green tubes should be excluded from the domestic finished OCTG industry.

TCA does not object to legitimate use of the trade laws to seek relief from imports that are a genuine source of injury, but this latest effort by the domestic industry to use unfair trade practice petitions to deny processors, such as TCA, access to imported green tubes smacks of a desire to limit domestic competition in the marketplace. Quite simply, petitioners are well aware that stemming the free flow of green tube imports would be tantamount to chopping the lifeline of TCA and other domestic processors. Without green tubes TCA cannot continue to function in the near term, nor will it be able to fulfill its plan for backward integration. Petitioners would be relieved if TCA was never able to build its integrated pipe and tube facility. They do not relish the thought of having to compete in the future with a low-cost, efficient mini-mill that will be capable of offering quality finished products superior to those produced by most domestic manufacturers. Surely, the domestic industry cannot have it both ways—it is unwilling or unable to supply green tubes while it seeks to bar processors from alternative foreign sources.

I believe the attitude of the domestic industry on this point is best reflected in a memorandum circulated by Lone Star Steel in connection with hearings before this Subcommittee on the Fair Trade in Steel Pipe and Tube Act in 1983. The memorandum, which argued that green tubes should be subject to import limits under the proposed legislation, acknowledged that domestic producers are unwilling to sell green tubes to the processor sector, stating:

"The claim by green tube producers of semi-finished steel tubular products are unwilling to supply them with their needs begs the question. Most U.S. producers are also finishers of their products. They only turn to specialty companies, like the finishing companies, when they are not able to do the work themselves. Right now there is a tremendous excess of steel capacity including finishing capacity in the U.S. U.S. manufacturers are not going to keep their finishing facilities shut down just to supply green tube finishers with the spotty demand these companies currently have for product. U.S. integrated companies want to first put all of their people back to work on a full-time basis."

The above quote confirms that the integrated domestic producers do not want competition in the production of finished OCTG from companies such as TCA.

I have offered our problems for your consideration. The question remains, however, what can be done to ensure that TCA has the necessary raw materials that it needs to remain in business. This answer is simple: exempt green tubes from the scope of any restrictive measures, such as H.R. 5081 or H.R. 3398, that may be enacted on imports.

Such an exclusion would be fully consistent with the scope of the formal EC arrangement on flat-rolled and structural products. That agreement excludes semi-finished materials, such as slabs, which permits their free importation. Green tubes are semi-finished products in the same sense as slabs. Indeed, the value added in the U.S. in converting green tubes into OCTG is substantially greater than the value added in the U.S. in rolling slabs into sheet or plate.

Further, I propose that any exemption be limited in its coverage. As I have said today, TCA needs an interim supply of raw materials. Accordingly, an exemption for seamless green tubes could be tailored to meed the specific circumstances of TCA and other similarly situated API licensed processors.

An exemption of this nature would foster a healthy and competitive environment for the domestic pipe and tube industry. Access to green tube imports is imperative to the survival and development of the processor sector. In short, I strongly urge that Congress, in considering H.R. 5081 and other trade measures, adopt appropriate amendments to exclude semi-finished green tubes from import restraints.

Thank you for permitting me to express my views and concerns on this issue of vital importance to Tubular Corporation of America, Inc.

Chairman Gibbons. Fine. Mr. Seigler.

STATEMENT OF CARL G. SEIGLER, CONTROLLER, BERG STEEL PIPE CORP., ACCOMPANIED BY LEWIS E. LEIBOWITZ, COUNSEL

Mr. Seigler. Good morning, Mr. Chairman, members of the subcommittee and staff. My name is Carl Seigler. I am controller of Berg Steel Pipe Corp. in Panama City, FL. With me is our attorney, Lewis Leibowitz.

Berg, a manufacturer of submerged arc-welded large diameter steel pipe in Panama City, FL, has a vital stake in maintenance of open channels of trade in carbon steel plate, the product which Berg uses to manufacture pipe.

Berg generally opposes the imposition of quotas as proposed in the Fair Trade in Steel Act and supports an exemption of steel plate used in production of large diameter pipe from any import restraints.

Import restrictions will shift injury but will not eliminate it. It is, therefore, imperative that the subcommittee consider the situation of downstream users of products subject to restriction. In Berg's case, any inconsistent treatment between plate and pipe is intolerable.

Import quotas on steel products would restrict supplies and increase prices to steel users. The increase in prices would introduce a host of distorting effects throughout the United States.

Increased prices would reduce demand for steel products, as consumers of those products—including, for example, pipe lines—defer or cancel projects which they might otherwise have undertaken due to the excessive cost involved. In other sectors, steel users may accelerate the substitution of nonsteel products in their manufacturing processes. To the extent either of these distoring effects occurs, domestic steel producers will not benefit at all from steel quotas.

Quota-induced price increases in steel products would also benefit foreign producers. As was the case with automobile quotas, it is entirely possible that foreign steel producers will actually be better off economically selling fewer tons of steel at higher unit prices than they would be if a free market were maintained.

Thus, the Fair Trade in Steel Act could have the ironic effect of strengthening foreign producers at the expense of domestic producers. In short, steel quotas are a blunt instrument which will help domestic producers much less than it will hurt steel users.

The U.S.-EC Steel Arrangement also illustrates the serious distortions which can result from artificial trade restraints. As a result of the arrangement's prohibition on reexports, Berg cannot export large diameter pipe at prices which are competitive in the world marketplace.

Domestic plates are priced so high as to make their use impossible in pipe for reexport. World prices for pipe are lower than domestic plate prices, thereby insuring a lost sale by Berg for any export order which has to use domestic plate. This situation helps foreign pipe producers rather than domestic plate producers.

In its recent section 201 investigation of steel products, the U.S. International Trade Commission found that imports are a substantial cause of serious injury to the domestic steel plate industry. However, they did not so rule with respect to pipe and tube products.

The potentially inconsistent treatment between plate and pipe as a result of the section 201 investigation presents Berg with the potentially disastrous possibility that its raw material will be subject to import restrictions and become more expensive, while its finished product will be open to free international trade and lower prices.

The resulting squeeze could well be fatal for Berg. It is entirely possible that inconsistent relief could result in the disappearance of the domestic large diameter pipe industry. Congress and the President must not make the mistake of treating plate and pipe inconsistently.

In conclusion, Congress must look into the distortions which import quotas will cause to steel users such as Berg. There must be provision for exemption from quotas of products for which quotas would not materially assist the domestic steel industry. Steel plate for large diameter pipe production is such a product.

Berg is a part of, and remains committed to, the continuation of a viable domestic steel industry. However, the Fair Trade in Steel Act would not accomplish any legitimate objective of domestic steel producers.

The increased prices and tight supplies would benefit foreign producers of downstream products, foreign producers of steel products through higher prices, and producers of substitutes for steel. The benefits left to domestic integrated producers would be insufficient to accomplish the fundamental restructuring and consolidation of the industry which needs to be done before the steel industry returns to health.

Thank you. I will be happy to respond to your questions.

[The following was subsequently received:]

SUPPLEMENTARY STATEMENT ON BEHALF OF BERG STEEL PIPE CORP.

This testimony is for inclusion in the record of the Trade Subcommittee hearing on August 3, 1984 on problems of the U.S. steel industry.

Berg Steel Pipe Corp. ("Berg"), a manufacturer of submerged arc-welded large diameter steel pipe in Panama City, Florida has a vital stake in maintenance of open channels of trade in carbon steel plate, the product which Berg uses to manufacturer pipe. Quotas on steel products distort the natural operation of the market place, encourage diversion of imports from lower-valued to higher-valued products, and tend to misallocate resources in favor of inefficient industries at the expense of efficient ones. Accordingly, Berg opposes the imposition of quotas as proposed in the Fair Trade in Steel Act.

Moreover, should trade restraints be imposed by this legislation or by any other means, it is imperative that consideration be given to the situation of downstream users of restricted products. Any inconsistent treatment between plate and pipe is intolerable to Berg.

A. INTRODUCTION

Berg's headquarters and production facility are located in Panama City, Florida. Berg is a manufacturer of large diameter welded steel pipe (24 inches through 64 inches in outside diameter) made from hot rolled carbon steel plates. The pipe is most often used in pipelines for transportation of gas, oil or water, but has other uses as well, such as pipe or piling or for contruction of drilling platforms.

Berg's Florida facility is the only one of its kind in the United States, in that it uses a pyramid rolling process, rather than the "U and O" process used by other pipe manufacturers in this country. The pyramid process allows for size changes in far less time than does the "U and O" method, which in turns means that Berg can handle relatively small orders more profitably. Berg is also competitive for large orders; its facility can produce approximately 150,000 tons per year of pipe products. Berg has welding and testing equipment to manufacture pipe for the most demanding applications, including "Arctic" grades.

Hot rolled carbon steel plates are available in many different grades and specifications. Some of these are available from domestic plate producers, while others are not. In the market for plates that are used to make large diameter pipe, the tendency is that as grades become higher and specifications more exacting, domestic plate sources tend to become less available.

The highest grades of plate for line pipe applications are the "X" grades ("X" denotes high-strength API line pipe). X-grade plates are specified for line pipe where corrosion in service would be a particular problem. They must be exactly uniform in dimension (no thin or thick spots), and have the proper tensile strength specifications. The latter specification must be maintained within a narrow range, so that the plate is "hard" enough to perform well in service as a pipe, but "soft" enough so that it can be formed into a pipe.

Large diameter pipe is usually sold on a competitive bid basis. In order to sell pipe, the price of plate is a critical consideration, because plate cost is about 70–80% of the cost of producing pipe. Berg cannot afford to pay significant price premiums for guaranteed specifications, because such premiums would simply make Berg's pipe bids uncompetitive. Significantly, several foreign mills offer these extras at nominal premiums, because their modern production and testing equipment permits guaranteed specifications with little or no change in productivity. Domestic mills which lack such modern equipment will lose productivity through rejection of significant percentages of their production of high-specification plate, which drives up their cost and prices.

Berg has purchased plates from several domestic suppliers. However, because plates are required in varying sizes, grades, and delivery requirements, Berg must purchase supplies from several sources, domestic and foreign. If Berg is limited by artificial trade restraints, such as those proposed by the Fair Trade in Steel Act, serious dislocations will result. For example:

(1) For very large pipe sizes, Berg needs wide plate. A pipe over 48 inches in diameter, for example, requires a plate in excess of 150 inches wide. Plate that wide is

available to Berg from only one domestic mill, U.S. Steel Corp./Gary, Indiana.[1] When Berg has asked for quotes from that mill for wide plate, the price has been incredibly high (over $600 per ton in recent months), making it impossible to use U.S. Steel's plate. U.S. Steel is also a competitor of Berg's in the line pipe market, which may help explain its plate pricing. Berg has had to go to foreign sources for plate over 150 inches wide.

(2) The highest grades of plate for line pipe applications are the "X" grades ("X" denotes plate for high-strength API line pipe, Grade 5LX). X-grade plates are specified for line pipe where corrosion in service will be a particular problem. They must be exactly uniform in dimension (no thin or thick spots), and have the proper tensile strength specifications. The latter specifications must be maintained within a narrow range, so that the plate is "hard" enough to perform well in service, but "soft" enough so that it can be formed into a pipe.

(3) The above examples are by no means isolated ones. For instance:

(*a*) A U.S. Steel order, promised April 1, was not completed until late June;

(*b*) A 500-ton U.S. Steel order for X-60 plate, promised April 1, was completed on June 11. U.S. Steel had a 34% rejection rate on this order; and

(*c*) Many other pending U.S. Steel plate orders have been late, including both X-grade and "Grade B" orders. USS sales personnel have informed Berg that the delays are usually occasioned by rejections of plate as sub-standard in USS's mill. By contrast, X-grade plate rejections from foreign mills have been virtually nonexistent since Berg started operations in 1980.

(4) Berg's location in Florida, and its state-of-the-art facilities, enable it to participate actively in the international market for large diameter pipe. It is impossible for Berg to compete for export business using domestic plate, because of its high cost. Domestic *plate* prices usually exceed international pipe prices. In 1982, before the advent of the U.S.-EC Steel Arrangement, Berg exported over 40% of its shipments. Since that time, exports have fallen nearly to zero, due to Berg's inability to obtain plate for reexport as pipe at world-competitive prives. This inability is due to an anomaly in the U.S.-EC Steel Arrangement, which counts against EC quotas even plate which is destined for reexport after transformation.

B. BERG OPPOSES THE FAIR TRADE IN STEEL ACT

Berg opposes the Fair Trade in Steel Act in general, because it would use the money of steel consumers, through higher prices, to fund a modernization program allegedly to be undertaken by steel producers. The bill ignores the sweeping changes which are occurring in the industry without government involvement. Indeed, enactment of quota legislation would stifle many of the forward-looking developments now taking place in the United States steel industry. For Berg's part, a significant investment in pipe making facilities in Panama City, Florida would be seriously jeopardized by the enactment of steel quotas on plate.

In any event, any bill affecting steel plate, the product which Berg needs in order to manufacture pipe, must treat imported pipe consistently. Otherwise, imported plate could enter this country in the form of pipe, further reducing U.S. price levels for pipe and putting Berg in a squeeze of intolerable proportions.

1. The bill does not take account of the development of nonintegrated producers

In recent years, a number of companies have built or acquired facilities which are not vertically integrated. In other words, these facilities use either finished steel mill products (such as plate) or semi-finished products (such as slabs) to manufacture products for sale in the general market place. Berg is a part of this development. In 1980, before Berg commenced operations, there were four manufacturers of large diameter line pipe in the United States, all of whom were integrated producers (i.e., each manufactured plate for use in pipe-making). The four members of the industry then were U.S. Steel, Armco, Bethlehem and Kaiser.

At present, the members of the industry include Berg, U.S. Steel, Bethlehem and a newly "dis-integrated" Kaiser. Armco closed its Houston pipe facilities in January, 1984. Kaiser has sold its plate-making facility in Fontana, California to California Steel Industries, and is no longer vertically integrated. Berg Steel began operations in 1980, and has never been vertically integrated.

Other segments of the steel industry similarly have moved away from vertical integration in favor of manufacturing specialized products using raw materials acquired from others. In many instances, domestic steel producers are unable or unwilling to meet the demand for these raw materials. This is both because old facilities operated by the integrated producers are unable to make many of the highly specialized products demanded in today's market, and also because the integrated producers often produce finished products in competition with non-integrated makers of the same product. It is clearly inadvisable for a non-integrated producer to rely for raw material supplies exclusively on a competitor. For these reasons, among others, non-integrated members of the steel industry have turned to foreign suppliers for some of their raw material needs.

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[1] Lukens Steel also makes plate over 150 inches wide, but it is not an approved supplier of Berg's.

The steel quota bill makes no allowance for this pehnomenon, which has tended to replace older and less efficient operations with newer, smaller and more efficient facilities. Quotas on steel imports will displace at least as many American workers from these newer, non-integrated plants as would be put back to work at the old integrated mills.

2. The distorting effects on patterns of trade must be considered before any quota bill is acted upon

The Committee must consider the distortions which steel import quotas would introduce into steel-using sectors, including the large diameter pipe industry. Domestic integrated producers are attempting to have it both ways, arguing before the U.S. International Trade Commission that steel import quotas will increase prices and thereby allow the producers to accumulate funds for modernization. By contrast, they have also asserted in their campaign in favor of the Fair Trade in Steel Act that import quotas will not raise steel prices to consumers significantly. See Exhibit A, attached. This disingenuous assertion, if true, would make import relief for the steel industry totally ineffective in its stated objective, and, in point of fact, cannot be right.

The fact is that import quotas on steel products would restrict supplies and increase prices to steel users. The increase in prices would introduce a host of distorting effects throughout the United States. Increased prices can be expected to reduce demand for steel products in some sectors, as consumers of those products (including, for example, pipe lines) defer or cancel projects which they might otherwise have undertaken due to the excessive cost involved. In other sectors, steel users may accelerate the substitution of non-steel products in their manufacturing processes. To the extent either of these distorting effects occurs, domestic steel producers will benefit not one iota from steel quotas.

Quota-induced price increases in steel products would also benefit foreign producers. As was the case with automobile quotas, it is entirely possible that foreign producers will actually be better off economically selling fewer tons of steel at higher unit prices than they would be if a free market were maintained. Thus, the Fair Trade in Steel Act could have the ironic effect of strengthening foreign competition for domestic producers.

In summary, steel quotas are a blunt instrument which will help domestic producers much less than it will hurt steel users. There is no evidence in support of this bill which indicates that the domestic integrated steel industry is more deserving of protection or financial aid than are the metalworking or fabricating industries from whom those funds would come under this bill. The plight of unemployed steel workers is indeed troublesome. However, as terrible as their plight may be, it will result in no social good to replace them with unemployed workers in steel-using sectors.

3. In any remedy, plate and pipe must be treated equally

In the recent Section 201 investigation of steel products, the U.S. International Trade Commission found that imports are a substantial cause of serious injury to the domestic steel plate industry. However, they did not so rule with respect to pipe and tube products.

The potential for inconsistent treatment between plate and pipe evidenced by the injury vote by the Section 201 investigation presents Berg with a potentially diastrous possibility that its raw material will be subject to import restrictions and become even more expensive, while its finished product will be open to free international trade and lower prices. The resulting squeeze could well be fatal for Berg. In addition, there is every reason to believe that the two remaining integrated pipe producers, U.S. Steel and Bethlehem, would quickly find that declining pipe prices present an unattractive outlet for their plate production. It is thus entirely possible that inconsistent relief could result in the disappearance of the domestic large diameter pipe industry.

The currently effective U.S./EC Steel Arrangement, negotiated in October, 1982, presents evidence of the distorting effects of protecting flat rolled products but not pipe and tube. There has been diversion of European steel products from those covered by the Arrangement to those not covered. Berg's performance within the domestic market has suffered because of the price squeeze imposed by quotas on EC plate without similar restrictions on pipe.

Berg believes that quotas on neither plate nor pipe are a preferable solution to pacing quotas on both products. However, it is absolutely imperative, above all, that plate and pipe be treated in a consistent manner. Lynn Williams said as much in his testimony before the Subcommittee on June 8. See Mr. Williams' prepared testimony at 11:

"An example of the vulnerability which results when a product line is left uncovered is provided by pipe and tubing and the EC Arrangement. Pipe and tubing was not included in the quantitative limitations under that Arrangement. As a consequence, imports of this product increased dramatically after the Arrangement, causing serious injury to this sector of the industry, and the shutdown of plants."

Whatever course is taken, Congress must not repeat the mistake of treating plate and pipe inconsistently.

4. Any legislative remedy should minimize market place distortions and should attempt to promote exports of steel products

The U.S./EC Steel Arrangement illustrates the serious distortions which can result from artificial trade restraints. The Arrangement contains a provision, Article 4(b), which counts against EC quota amounts Arrangement products which are imported into the United States, transformed into another product and then reexported. Thus, the inflated prices inherent in a quota regime for products restricted artificially, applies not only to products which are destined for U.S. commerce, but also to products which are to be reexported. This means that Berg cannot effectively export large diameter pipe at prices which would be competitive in the world market place.

This situation does not help the domestic industry producing carbon steel plates. Those plates are priced so high as to make their use impossible in reexport applications. The world price of pipe is lower than domestic plate prices, thereby insuring a lost sale by Berg for any export order which has to use domestic plate. The consequence of the anomaly in the U.S./EC Steel Arrangement is to prevent Berg from exporting, to the benefit of foreign pipe producers who remain active in international markets. Domestic producers do not benefit from this restriction at all.

CONCLUSION

Any comprehensive remedy adopted by Congress must take account of the distortions which quotas will cause to steel users such as Berg. There must be provision for exemption from quotas of products not available domestically or for which quotas would not materially assist the domestic steel industry.

The "short supply" section of H.R. 5081 is totally inadequate. The "short supply" provision requires an examination by the Secretary of Commerce of claims by affected steel consumers that there is a short supply situation with respect to "articles" within the restricted product categories. The Secretary must also consult with domestic steel producers in an effort to determine whether a short supply situation actually exists. By the time this process runs its course, whatever sale may be in the balance will almost certainly have been lost. American business cannot operate in this fashion and hope to remain competitive with international producers unfettered by such restraints.

Berg is a part of, and remains committed to, the continuation of a viable domestic steel industry. However, the Fair Trade in Steel Act would not accomplish any legitimate objective of the domestic steel producers, and would harm the interests of users of steel mill products, such as Berg. The increased prices and tight supplies in the midst of world-over capacity in steel would benefit foreign producers of downstream products, foreign producers of steel products through higher prices, and producers of substitutes for steel, leaving precious little benefit for traditional domestic integrated producers. These benefits would almost certainly be insufficient to accomplish the fundamental restructuring and consolidation of the industry which needs to be done before the steel industry returns to health.

[Exhibit A]

FAIR TRADE & STEEL, "TWENTY HARDEST QUESTIONS THE INDUSTRY MUST ANSWER", SECTION 5, QUESTION 8, PP. 6–7, PREPARED BY THE AMERICAN IRON AND STEEL INSTITUTE

Question 8. If relief is granted, won't steel prices just go up? Won't this in turn slow down the economic recovery?

Answer. For three reasons, the Fair Trade in Steel Act would not have a measurable impact on steel prices.

First, the substantial competitive pressure from imports will continue indefinitely. Significant steel imports—higher on average for a five-year period than at any time in U.S. history before the 1970's—would still be permitted. In fact, even with the proposed quota, the U.S. would remain the most open market for steel of any of our major trading partners.

Second, steel prices, both in the U.S. and worldwide, are determined by many factors, including the general level of economic activity, demand and costs, not just the volume of imports.

Third, with more than 70 U.S. steelmaking companies, the domestic industry is highly competitive. Moreover, consumers ultimately will benefit from the higher efficiencies achieved as the Fair Trade in Steel Act helps to lower costs and thus generate the capital required for modernization.

In exchange for the rising tide of imports, our country has paid a high price in terms of lost jobs, lost tax revenues, and increased government payments to the unemployed.

In the period 1975-1979, the steel companies employed an average of 453,000 salaried and hourly-paid persons. That number is now 243,000. While the American economy is recovering from the recession, the depression in the steel industry is continuing. Almost 100,000 employees are still on layoff. During the past two years steel companies have incurred $6 billion in losses.

It is obvious that restraints on dumped and subsidized steel imports are the difference between profitable operations and resumed employment on one hand, or continued depression in the steel industry on the other.

Chairman GIBBONS. Thank you.

Mr. Calhoun.

STATEMENT OF MICHAEL J. CALHOUN, COUNSEL, PINOLE POINT STEEL CO.

Mr. CALHOUN. Thank you, Mr. Chairman.

Mr. Chairman, members of the subcommittee, I am Michael Calhoun of the Washington office of the law firm of Finley, Kumble, Wagner, Heine, Underberg, Manley & Casey. I represent the Pinole Point Steel Co. of Richmond, CA. I would like to thank the subcommittee for allowing me to appear today.

It is a special treat for me since this is the first time I have had occasion to return to the subcommittee in a capacity other than as a staff member.

Mr. Chairman, neither the Pinole Point Steel Co. nor I are new to the problems of the American steel industry. Pinole Point's galvanized sheet production facility is the reactivated plant given up by Bethlehem Steel.

Since 1979, Pinole Point has been operating a highly efficient mill which produces premium quality galvanized sheet. Pinole Point is privately held and managed by Marshall I. Wais, who has been widely respected in the steel industry for more years than he would permit me to reveal.

For my part, I have represented Pinole Point for 8 months in several matters, including a countervailing duty case, serious disadvantages to Pinole Point caused by the U.S.-European Communities steel arrangement, and I am currently Pinole Point's counsel in the section 201 case.

In addition, Mr. Chairman, as you know, I was vice chairman of the U.S. International Trade Commission from 1980 to 1982 when the great steel wars first began.

I review this background for the subcommittee to make the point that the views I am going to offer on the steel legislation at issue and on the plight of the domestic steel industry in general are soundly based well beyond the narrow interests of one small domestic producer. They reflect varied experience with the steel industry over an extended period of time.

My view, in short, Mr. Chairman, is that I agree with supporters of the legislation which would restrict steel imports that the domestic steel industry is in serious trouble and needs assistance.

I strongly disagree, however, that a responsible solution to the problem is to impose an across-the-board limitation on the market share imported steel products can have in the U.S. market.

The cause of the steel industry's difficulty are much too varied to be addressed adequately simply by limiting imports. The nature of the industry is much too complex for its problems to be addressed by such an undifferentiated limitation on imports.

Indeed, the approach of the legislation, and for that matter, the approach of the ITC in its remedy recommendation in the section 201 case, will do more harm to domestic steel industry in the midterm, 3 to 5 years, than any short-term benefit which may derive from crassly applied import restrictions.

In the months of testimony the subcommittee has had on this issue, I am sure you have heard all the reasons why imports are not the only cause of the industry's plight. I will not add to that inflated body of opinion.

What I would like to do is explain why, in my view, the complexity of the structure of the steel industry makes import restrictions a very crude, dangerous, and simplistic approach to addressing its problems. I will offer Pinole Point's experience as an example of this important fact.

It is widely accepted that a primary cause of the domestic steel industry's problem is related to fundamental changes occurring globally in steelmaking. It is mostly the large integrated domestic producers that have been adversely affected by these changes and have been least able to adjust to them.

Because the domestic industry is seen in monolithic terms and because the large integrated producers make the most noise, it is underappreciated that, as a whole, the domestic industry has been making significant progress in adjusting to the new global trends in the structure and efficiency of steel production. I think the testimony you have heard from this panel alone suggests that.

Thus, in seeking to address the problems of the large integrated steel producers, critical policy sensitivity must be exercised not to undermine legitimate adjustment efforts already in progress in the industry.

An arbitrary, across-the-board quota or tariff scheme would so undermine sound efforts by much of the industry to be competitive in this new irreversibly global steel-producing market.

In analyzing the problems of domestic steel producers, there is the tendency to view the industry, as I have said, as a monolith: One national industry mainly comprised of large, integrated producers.

Under such a view, the problems of these producers have been seen as the problems of the entire industry. The characteristics of this national group of integrated producers have been seen as the characteristics of all others in the industry. Solutions to industry-wide problems are, therefore, considered to be those that solve the problems of the integrated producers.

But the domestic industry is rapidly becoming very diversified in its structure. This diversification is a legitimate and important part of the industry's adjustment to the irreversible global development in steel production.

Sound policy approaches to industry problems, therefore, must take account of this emerging complexity of domestic steel production and not just the needs of the traditionally national based large integrated producers.

One very important feature of the emerging new character of the American steel industry is the rise of regionally based, nonintegrated producers. These producers rely on purchased feedstock in their competitive production of a narrow range of finished steelmill products.

They source their feedstock from domestic and foreign producers. And, most important, they serve the particular regional needs, forged by market factors, which the large, integrated producers cannot or will not meet.

For the most part, if these regional nonintegrated producers ceased production, it would be imports, not traditional domestic producers, that would satisfy demand.

Efforts to address the problems of the American steel industry must recognize that these new and emerging members of the domestic steel industry are well established and essential to the survival of domestic steel production. Efforts to correct harm to the large, integrated producers, therefore, should not inadvertently undermine the viability of these equally valuable members of the domestic industry.

The circumstance of the Pinole Point Steel Co. is a compelling and representative example of the insensitivity and dangers of well intentioned, but overly simplistic efforts to help the domestic industry. I will try briefly to demonstrate this.

Pinole Point has about 40 percent of the domestic galvanized sheet capacity in the steel market west of the Rockies. The United States Steel Corp. plant in Pittsburg, CA is the only other galvanized sheet producer in this region.

Because of overland transportation costs, no other domestic producer currently supplies the western region nor has done so historically. But these two regional producers can only supply about 55 percent of regional demand for galvanized steel. The rest comes from abroad, primarily from Japan.

Thus, the first point is that the Western States region is structurally dependent on imports to meet nearly one-half of its need for galvanized sheet. The United States Steel Corp. is currently operating at or near capacity, but Pinole Point has been able to operate only at about 65 percent capacity despite increasing demand.

This raises the second crucial point. Pinole Point has been unable to meet demand for its product largely because it cannot obtain its needed feedstock. Pinole Point produces hot-dipped galvanized sheet from unannealed, full hard cold-rolled steel suitable for hot dipping.

For a lawyer, it is sufficient I am able to say all of that without making a mistake. I don't want to suggest that I know what all that means.

This feedstock is simply the most rudimentary, unfinished form of cold-rolled steel. It is an intermediate stage in making cold-rolled sheet and is taken off the cold rolling mill before the typical processing of annealing, tempering, pickling, and surface treating to make the much higher value added finished cold-rolled sheet.

No domestic producer east of the Rockies has been willing to ship the full hard steel feedstock into the western region. Therefore, the only domestic source for Pinole Point's feedstock is its competitor, United States Steel.

United States Steel's behavior as a potential supplier of its competitor's feedstock has been predictable. Its feedstock pricing would make Pinole Point's galvanized sheet completely uncompetitive with United States Steel's product and with imports.

Furthermore, it has refused to enter into a regular supply relationship. But, because of the pressure of several steel investigations, United States Steel has finally offered to sell Pinole Point about 30,000 tons of feedstock at totally uncompetitive prices, over a 6-month period.

This is to occur through supplies of 5,000 tons a month over 6 months. It is worth noting that Pinole Point's feedstock needs are about 240,000 tons a year.

Chairman GIBBONS. Maybe we ought to have a hearing and ask those gentlemen who run the plants who are up here complaining to come around and answer those questions, and let you sit here and ask them.

Mr. CALHOUN. I would enjoy it very much.

Chairman GIBBONS. I would, too. We may have to issue some subpoenas to get the people here.

Mr. FRENZEL. I will be glad to knit while a head is dropped into the basket.

Chairman GIBBONS. We may be getting some fun out of this thing, as well as getting tough.

Go ahead.

Mr. CALHOUN. The third point, then, is that for these reasons, Pinole Point must rely on imports for its feedstock. But even here, it has met with difficulties because of Government efforts to help the domestic steel industry.

One of Pinole Point's primary European suppliers has been all but lost because of restrictions on imports of steel from Europe as a result of the U.S.-EC steel arrangement.

Its Brazilian source has dried up because the ITC has chosen to treat Pinole Point's semifinished feedstock as a finished cold-rolled product, making it subject to crippling duties. Most recently, Pinole Point's remaining suppliers have been reluctant to ship for fear of antagonizing the ongoing section 201 remedy phase.

Under the ITC's recommendation in the 201 case, Pinole Point would lose nearly all its access to its feedstock, but galvanized imports would be permitted to expand. The across-the-board import restrictions envisioned by the existing legislation would also shut-off Pinole Point from its feedstock source.

Experience has consistently shown that as long as unannealed full hard steel is treated as finished cold-rolled sheet and cold-rolled sheet is subject to import restrictions, producers prefer shipping finished sheet because it has significantly greater value added.

In any case, import restrictions will ultimately require Pinole Point to cease production. The loss of Pinole Point's galvanizing capacity has effects beyond the loss of a single producer. And this raises the final point, Pinole Point's closure would cost jobs and hurt steel processors downstream without one single measure of benefit to any domestic producer.

The loss of Pinole Point would eliminate 200 jobs and give imports another 20 percent of the galvanized market in the west. Further, it would make western users of galvanized sheet, primarily fabricators producing finished products for use in construction, much less competitive against imported finished galvanized products.

Moreover, since domestic galvanized sheet would become less available, foreign producers would begin to ship finished galvanized products which will further pressure already weakened domestic fabricators and processors. Since the only remaining domestic producer of galvanized sheet, United States Steel, is already operating at capacity, import restrictions which would put Pinole Point out of business would benefit no domestic producer.

Mr. Chairman, members of the subcommittee, Pinole Point's experience is all too typical of the circumstances facing a great number of steel producers and fabricators in the Western States region.

Supporters of the steel legislation, the ITC, and many policymakers do not seem to appreciate adequately that the steel industry in the East is quite different from that in the West. All attention seems to be focused on the problems of the large integrated producers in the East.

These members of the steel industry do deserve attention. But resolving their problems without taking account of the impact on other parts of the industry is not only misplaced, but could be devastating.

The market west of the Rockies is fundamentally isolated. It has historically relied on imports and domestic processors to meet demand. Limiting imports based on national, aggregate figures is not necessarily going to benefit any domestic producer active in the Western States market. In the case of cold rolled sheet, the only domestic producer is operating at capacity.

For galvanized sheet, the United States Steel Corp. is at capacity and Pinole Point could be at capacity with adequate feedstocks.

Limiting imports based on national, aggregate figures would, as well, not only upset the long-established balance in the region between imports and domestic production. Absent particular attention to the market structure in the West, nationally based quotas or tariffs will unnecessarily increase import pressure on Western States steel processors and fabricators who compete with imports of finished products.

In conclusion, Mr. Chairman, the simplistic approach of a national quota on aggregate steel importation will not alone solve the problems of the eastern integrated steel mills. But in the process, it will undo the important and effective adjustments underway within the industry.

The problems of the industry are complex and require a finely tailored policy response. This is especially so if the focus of Government's response is merely to be a program of import restrictions.

The legislation at issue does not come close to offering such an effective response to Pinole Point's problem or to the larger and complicated problem of the Western States steel market.

Thank you for this opportunity to provide you with these views.

Chairman GIBBONS. We appreciate the fine statement you made.

I want to point out here that I had a hearing on the west coast of the United States about 1 month ago. I went out there really to learn more about the aircraft industry and the timber industry and a few other industries.

Everyplace I went former steel fabricators came up to me and said "You know, we have been run out of business by the American steel companies."

Mr. CALHOUN. Mr. Chairman, I really cannot emphasize too much the fact that in the effort to deal with a legitimate problem facing the steel industry, most branches of the government seem not to recognize the fundamental importance of the Rocky Mountains in the steel market in this country.

It simply is a different market. The market factors in the West are very different than the market factors in the East. And the effort to deal with the problems in the East could very well destroy the evolving competitiveness of fabricators and processors and non-integrated producers.

Chairman GIBBONS. I am sure there are far more jobs lost in the fabricating industry in the West as a result of their inability to obtain steel at anywhere near a competitive price. This factor has simply run them out of the market.

As I was saying, starting in Seattle and coming south, wherever I stopped, I ran into one former fabricator after another who said he had to go out of business. They could not get the steel; they could not get competitive prices; that was the source of their problem.

Mr. CALHOUN. To be fair to policymakers, there is concern that the Constitution prevents any administration from adopting a regional import policy. The concern is with the provision that prohibits preferences shown to individual ports that discriminate between—among the various ports.

We have done fairly extensive research on the constitutional cases interpreting that provision. There is considerable flexibility in that provision and in Supreme Court decisions on that very issue. And if the will were there, there is more than ample room, beyond the grey area, in very clear legal interpretations, that would allow a differentiated policy based upon market factors that are substantive and demonstrable.

I would encourage, as I have consistently done with every policymaker I have talked to, and I can tell you there are not too many left I have not talked to, a reexamination of the interpretation of the constitutional provision.

Chairman GIBBONS. Mr. Seigler, your problem is you cannot get steel at a competitive price.

Mr. SEIGLER. High quality steel. One of our biggest problems is that we are not able to buy high quality steel from a foreign source and cannot get the quality steel from a domestic source. If anyone would like evidence of that, we have plenty of claims that we have submitted.

Chairman GIBBONS. Could you just tell this committee what efforts you have gone to to try to get quality steel from domestic sources?

Mr. SEIGLER. In the last year—well, since the U.S.-EC steel arrangement has been in effect, we have had to buy quite a few high quality plates from domestic sources. It can be produced in this country.

But the problem is the buyer has to pay for the rejection rates which are very high. So the plate becomes completely uncompetitive as far as prices from foreign sources, and you still have to put up with the high rejection rates once you do get the material in your mill.

Rejection rates on foreign plate have been in the 1 to 3 percent range at most. It is tenfold that on specific orders of high quality steel plate——

Chairman GIBBONS. Tenfold rejection over foreign plates for high quality steel?

Mr. SEIGLER. For certain grades of high quality——

Chairman GIBBONS. How much more does that high quality steel cost—in dollars—over the imported, high quality steel?

Mr. SEIGLER. I can give you this example. High quality steel plate in this country sells at a price higher than high quality steel pipe in foreign countries. I can give you——

Chairman GIBBONS. That just puts you out of business.

Mr. SEIGLER. It absolutely puts us right out of business.

Chairman GIBBONS. If you cannot get the plates, you surely cannot fabricate it into high quality pipe. So your business goes down the drain.

And that is the same problem you have, Mr. Alpert, isn't it?

Mr. ALPERT. Ours is more basic than that. The domestic producers have simply been unwilling to sell. We have only run into one situation where domestic producer had specifically quoted us a product, and the quote for that product was more than the price for the finished product was selling in the marketplace.

Chairman GIBBONS. I have always wanted to have a head-on hearing here—my staff and others always urge me not to do it, because it may get too bloody. But I wonder if I could get up here the people who are always complaining about imports, and who claim they have got a lot to sell, sitting on one side of the table, and you steel-users sitting on the other side. Would you be willing to participate in that kind of discussion?

We would let it all hang out right here on the record. Of course we would provide adequate medical care for casualties. Would you all be willing to sit down with these American producers and just knock heads right here in front of the cameras?

We will ask the American producers if they would be willing to come in.

Mr. **Frenzel**. Mr. Chairman, I don't think we can go ahead with consideration of this bill until we do get from the American producers some sort of statement in response——

Chairman **Gibbons**. I don't want a written statement. They will write anything. I want them subject to cross-examination—one American versus another.

Mr. **Frenzel**. We have always had the supply problem for the small manufacturer. But today we find supply problems for large buyers, we find quality problems, we find at least hints of antitrust problems.

And I don't think we can go forward until we look at those questions. I think what you suggest is a good idea. I hope we do it.

Chairman **Gibbons**. We will try to get a larger room for that occasion.

It seems to me that all of American industry is being whipsawed by the large integrated steel producers who say their sole problem is imports—meanwhile, the minimills have been growing and taking over more of the U.S. market. The minimills have grown from 2 percent of U.S. production to over 20 percent in just about 20 years.

You know, we have always been taught in America that bigger is better. Well, maybe bigger is not better when it comes to serving the kind of specialized markets we have got now.

There's always talk of economy of scale. There's never talk of the inefficiency of scale. It seems to me that what has really happened is that the large producers have been unable to make the kind of adjustment that we expect competitive American industry to make and are now going around blaming the wrong people.

Can we kick that idea around awhile?

Mr. **Calhoun**. Mr. Chairman, as I indicated in my statement, there are a number of problems facing the large integrated producers, and certainly imports is only one of them. It may well be that the market structure in the United States has changed to the point that the large integrated mills are going to have to back out of some product lines and begin to focus on a narrow product spread.

Indeed, it may require some further concentration, that is some further reduction in capacity, so that the large integrated mills are not stepping over each other. But I think as you have said, what has been clearly demonstrated is that on a regional basis, and certainly on the minimill and nonintegrated basis, we have a tremendous upsurge in small specialized producers who can meet foreign competition and have been pressing the large integrated mills for some time.

And the diversion towards imports, the diversion of attention towards imports has, I think, left unexplored the impact of the rise of minimills and nonintegrated producers have always had on the problems facing the eastern large integrated mills.

Chairman **Gibbons**. We are still trying to nurse a dinosaur.

Mr. **Calhoun**. In many respects, that is true.

Chairman **Gibbons**. Well, we had testimony here this morning from Caterpillar, hardly a small inexperienced company, the largest producers of high-technology heavy goods probably in the world, saying they can't get good, high-quality, reasonably priced steel from American producers.

We have testimony from you two gentlemen representing relatively small, but profitable, highly efficient businesses saying you can't get quality steel at reasonable prices.

We have your testimony saying that you get 10 times the rejection rate for domestic quality steel as compared to imported steel.

We have testimony from you that if you buy high-quality steel in the United States, you could buy the finished product cheaper than you can buy the steel.

Mr. LEIBOWITZ. Correct.

Chairman GIBBONS. All of this is diametrically opposed to what the big integrated steel industry tells us.

Any more questions?

Mr. FRENZEL. I want to indicate to Mr. Alpert that Mr. Jones also talked to me about your problem, and he reminded me that you had been here before with the same problem.

As I understand it, the ITC found no injury with respect to the import product you would like to buy abroad, is that true?

Mr. ALPERT. No, that is not true. Right now our product is, unfortunately, balled into the same category as the oil-country products for which they found injury.

Mr. FRENZEL. They did?

Mr. ALPERT. Yes, for the five countries.

Mr. FRENZEL. You are still, of course, loused up by our voluntary quotas with the EC?

Mr. ALPERT. Absolutely.

Mr. FRENZEL. You are still involved with that?

Mr. ALPERT. In the case of the Japanese, we have been cut off entirely.

Mr. FRENZEL. Thank you very much.

Mr. ALPERT. Let me clarify one point. In the preliminary decision at the ITC, they simply did not separate our raw material, which is green tubes, from the oil-country tubular filing. They have reserved judgment on that, and it will evolve really over the next several months.

Mr. FRENZEL. I thought there had been no injury.

Chairman GIBBONS. He is talking about an antidumping case, not the 201 case.

Mr. FRENZEL. I was talking about 201's.

Mr. ALPERT. I am sorry. I was focusing on the cases filed by Lone Star. In the 201's, that is correct.

Mr. FRENZEL. I also wanted to thank our illustrious vice chairman for his splendid testimony. We always appreciate his coming here even on Friday.

The question that you raised about whether American policymakers are resisting a regional import policy because of constitutional restrictions is a fascinating one and to me, it begs the real question which is: Why are we digging around with import policies anyway? If led on by your brilliant research and assurances that such policies are constitutional, aren't we just ultimately building a more complicated box for our own funeral?

Mr. CALHOUN. If import policy were going to be the only tool Government used to address the problems of the steel industry, there really is no adequate way it could be successful. What I have asked in this statement is that the import policy be more complex in that it show particular attention to smaller and smaller categories of individual imports. That is on the assumption that an import policy is ultimately going to be the Government response.

Import policy cannot address the problem. It can only buy time for either market forces to make some adjustments or for certain companies to bite bullets very hard and undertake some restructuring that they would not otherwise feel comfortable doing in an environment where imports were coming in strongly.

But the problem facing the domestic industry is not simply import competition.

Mr. FRENZEL. So leaving Pinole Point aside for a moment and the regional problems aside, is it the opinion of Mike Calhoun, observer of world-trade conditions, that we shouldn't have imports or that the imports should not be restricted in the first instance, and then we would not have to worry about whether we went regional?

Mr. CALHOUN. My instinct, Congressman Frenzel, is that a limited import policy, limited both in time, 3 to 5 years, would be the maximum under 201, limited in time and very finely tailored on a product basis, coupled with the requirement that the industry undertake rather specific and difficult restructuring tasks I think could be useful.

Now, the tasks involved include closing a large number of mills, finding capital to invest in new equipment, eliminating certain product lines, and so to some extent might well require some companies going out of business altogether.

Only through that kind of vigorous government-inspired culling process, I think, could an import policy be useful. I find it interesting that in our efforts to support, in fact, to even foster the d'Avignon plan in the European Community, we have pressed very, very hard on the Europeans to cut back capacity through the exercise of government incentives and government pressure, and yet have not been willing to do the kind of thing here.

At some point in the future, Europe may well find itself at a capacity equilibrium where we still have excess capacity in product lines in which integrated producers simply are not efficient. So that is a long-winded answer.

The short answer is that an import policy, combined with a very stringent restructure program, could be useful, but an import policy alone is simply not going to address the problem no matter how refined it is.

Mr. FRENZEL. I guess as a response, I guess I feel that we may as well buy the companies in that case and nationalize them, because we have told them everything they have to do at that point.

Mr. CALHOUN. If there are any Lee Iacoccas of the steel industry, perhaps the Chrysler model will be encouraging.

Mr. FRENZEL. If they are not successful, they will want us to give them back their stock, won't they?

Mr. CALHOUN. I am not any more inspired with the Commerce Department or some other agency running the steel industry than private hands.

Mr. FRENZEL. We used to think we should leave it to the competitive marketplace, but I suppose that is one of the old values that has fallen.

Mr. Alpert, the chairman mentioned something about the bigness and efficiency, and raised a question of whether or not small companies can be efficient. You apparently plan to produce your base product.

Mr. ALPERT. That is correct.

Mr. FRENZEL. And I assume that the plant at which you will produce it is not going to be the largest in the world?

Mr. ALPERT. That is correct. It would be in its first phase about a 350,000-ton plant, ultimately a 450,000-ton plant.

In the tubular sector, there is tremendous opportunity to become a highly efficient producer because the overwhelming majority of mills making the seamless oil country products that we intend to make are well over 40 years old, and their yields and productivity and product quality is abominable.

Mr. FRENZEL. So you believe that you can be a competitive world producer in what is not a very large plant?

Mr. ALPERT. Oh, absolutely, and putting together the project financing related to this, we not only had to contrast domestic operating costs, but we had to contrast European and Japanese, and the operating costs for such an efficient minimill are literally less than the Japanese operating costs, who are viewed by many as the best producers in the world.

Mr. FRENZEL. Mr. Chairman, I thank all the witnesses. It has been an illuminating morning.

Chairman GIBBONS. Thank you very much.

I would like to talk with you a lot longer, but we have lured some people in from out of town and told them we would hear them today, and I am afraid we are going to run out of time.

Thank you very much.

Mr. SEIGLER. Thank you, Mr. Chairman.

[Mr. Jones submitted the following letter:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, DC, August 2, 1984.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade, Committee on Ways and Means, House of Representatives, Washington, DC.

DEAR SAM: While I had intended to attend the Subcommittee's final hearing on the problems of the U.S. steel industry tomorrow, I have been unexpectedly called away and thus will not be able to participate.

I very much wanted to join you because two Oklahomans, Mr. Robert Alpert of Tubular Corporation of America, and Mr. Carl Liggett, of AllianceWall, will be testifying about their respective companies' difficulties in getting a steady supply of necessary steel raw material from a domestic source.

Their problems, and those of other American companies which rely on a steady supply of certain types of steel raw materials, point out vividly some of the possible pitfalls of administrative or legislated quotas.

In the case of Tubular Corporation, the problem comes in obtaining semi-finished tube, known as "green tube," necessary as a raw material for oil country tubular goods. TCA has made a major investment in Muskogee, Oklahoma, and their plant produces the highest quality seamless tube.

Unfortunately, try as they might, TCA has been unable to find a domestic source for this raw material. Instead, they must import green tube from the Pacific Basin and Europe. It is very important to note that this green tube undergoes a major transformation in the Muskogee plant; TCA does not simply add a thread to the pipe or otherwise subject it to simple processing.

Extension of quotas or other restrictions to green tube would have the effect of killing a new industry. The TCA facility in Muskogee utilizes the most advanced technology in use anywhere in the world. It is fully computerized and represents a steel success story in America which should be encouraged. I am sure that Mr. Alpert will touch on each of these points, and I hope you will have the opportunity of pursuing them with him.

Mr. Liggett's company, AllianceWall, is the world's largest producer of blackboards. Gone are the days of slate in the classroom; today's blackboards generally consist of high quality, ultra-thin steel coated in procelain. The steel must be perfect: any imperfections lead to buckling and render the item useless.

AllianceWall had secured their steel from a domestic manufacturer, but both Mr. Liggett's company and his supplier agreed that the quality specifications could not be met. Since that time AllianceWall has purchased their steel from Japan.

Very blunty, without access to a steady and reliable source of foreign steel, Mr. Liggett's company could not continue its work. AllianceWall is a large exporter of products, including, of course, blackboards, but also interior and exterior walls. Many kindergartens and nursery schools use this product as easy-to-clean interior walls.

Any restrictions which jeopardize this company's ability to maintain its preeminent position in its field cannot be justified. AllianceWall employs around 75 people in its Okmulgee, Oklahoma, facility, and they are understandably proud of their product. They, like the employees of Tubular Corporation in Muskogee, represent a sector of our steel industry that can and should be the leader in the world. This position must be taken into account during consideration of any legislation concerning the steel industry.

Again, Sam, I am sorry I will not be able to attend the hearing. I'm certain, however, that you will find Mr. Alpert and Mr. Liggett very illuminating, and I hope you will be able to go into some depth with them on their particular viewpoints.

With best wishes,

Sincerely yours,

James R. Jones,
Member of Congress.

Chairman Gibbons. Davis-Lunch, Inc., AllianceWall Corp., and Utica Cutlery Co. Mr. Davis, I understand, has not arrived yet because of plane connections, and we will hear him just as soon as we can.

Let's have AllianceWall first. Mr. Klein and Mr. Liggett, come forward and, Mr. Rusyniak, also come forward.

Let's proceed right ahead. As I said, Mr. Klein and Mr. Liggett, Congressman Jones sat down with me yesterday afternoon, and then wrote me a long letter about the problems that you have. Unfortunately, conflicts required him to be out of town today. But he is an important and valued member of our committee and subcommittee and seems to be well informed on the problems that you have. Why don't you lead off, Mr. Klein and Mr. Liggett?

STATEMENT OF ROBERT L. KLEIN, CHAIRMAN OF THE BOARD, ALLIANCEWALL CORP., ACCOMPANIED BY CARL LIGGETT, VICE PRESIDENT, MANUFACTURING

Mr. Klein. Thank you, Chairman Gibbons, for letting us present our case today.

I have never appeared before a congressional committee before, and I did present a written paper, which I would like to put in the record.

I would like to summarize it, to save the time of the committee. AllianceWall Corp., I would like to go right to the bottom line, imports all of its steel from Japan and it imports all of its steel from Japan for one reason: it cannot buy its product in the United States, so if there were any restrictions or any additional costs put on the importation of steel, it is obvious that it would harm our little company.

Chairman Gibbons. Why do you have to import all of it?

Mr. Klein. Because there is not a single steel company in America that will ship us steel. We have tried.

Chairman Gibbons. Give me that one again, not a single steel company? Would you like to come here and talk to some of those fellows who run those steel companies to their face, because they will tell us that it is just an isolated incidence. Can you document that, and come here, and tell them? I will get them on one side of the table, and you on the other.

Mr. Klein. It would be a pleasure. I am a member of the Porcelain Enamel Institute and about 5 years ago, there were about five steel companies that were members of the same group, and I, at one meeting when they were sort of talking to all of us and saying it is terrible about all this imported steel, I stood up and stopped them from playing golf that afternoon by giving them the fact that we can't buy any steel in the United States.

Chairman Gibbons. What is so unique about your steel that they won't sell it to you?

Mr. Klein. Our steel is only 0.015 inch thick. That is 0.015 inch thick, 28 gauge, 29 gauge. We use it for writing boards for schools, which is one of our prime products. We porcelain enamel this product for exterior insulated energy saving panels, interior petitions, and those are our three major markets.

Schools will not buy corrugated blackboards. They are not looking for blackboards with dents in it. They are not looking for blackboards that are not flat, because it is very difficult to write on an undulated board. This is a major product with us, and I can cite an instance when Bethlehem Steel told us in 1977 that they did not want to supply us any longer after having been a supplier for 15 years.

I was invited to Sparrow's Point and we had been complaining about dents and dings on the coils of steel that we buy from them. We process in a coil, a continuous process, and the manager of the plant said: "Your quality restrictions are terrible, and we just can't service them. We have to make 2 pounds of steel to ship you 1."

We went into the plant with a sales manager from the Bethlehem area who was servicing our company, and we went in to see the final inspection procedure. We had been complaining that we had these dents on those coils and were losing a lot of the outside wrappers of the coil, which they blamed on the trucking companies, they blamed on our material handling, and we are a very small company, and we did look within our own organization for the problem.

Would you believe that the last inspection process they pushed the coil of steel off the mandril onto a wood platform which had nails projecting up from the wood, so every coil of steel that they ran over this wooden platform was picking up holes or dents caused by the nails. The incline platform then bumped up against a bumper which was also wood with also nails protruding from the bumper.

Chairman Gibbons. Real high technology.

Mr. Klein. Oh, yes. So I said: "This is where our problem was." The foreman said: "Oh, yeah, we have to keep these nails down." Went behind the machine, this is a steel company, took a hammer and hammered the nails down on the board. I said: "Well how often do you do this, why don't you replace this with a steel platform or something?" He said, "Well, this is our process, we will consider it."

Well, we never had any more steel from them, so I frankly don't know whether they did cure that terrible problem of keeping the nails down on the platform or whether they were rolling thousands of dollars worth of steel over some wood bumpers.

Mr. FRENZEL. Is this a local plant?

Mr. KLEIN. Sparrow's Point, right outside of Baltimore.

Mr. FRENZEL. Where they have to lay off all the people because of imports?

Chairman GIBBONS. They didn't have anybody to drive those nails in—that was the problem.

Mr. KLEIN. On that same visit, because I have never been invited back again, we had sent some sample pieces because we were having trouble with too high a carbon content, which in the porcelain enamel process you just can't have that, and they never saw the samples. They didn't know what happened to them. I went in to make a phone call in a closed office, not knowing that it was the metallurgical laboratory, and there our samples were sitting on the desk already marked up, a report there saying that it was high carbon, which I couldn't read because I am not a metallurgist, and I called the people over and I said: "Isn't that our samples that you people have been looking for for 2 months?" And the salesman said: "Oh, I am embarrassed. I am really embarrassed."

Chairman GIBBONS. That is what you call good management and high technology.

Mr. KLEIN. This is what I think is part of the problem. It is not just labor cost and imports. It is a combination of things.

Chairman GIBBONS. It sounds like a "just don't give a damn" attitude.

Mr. KLEIN. I am afraid so at that time, and I am going back a few years because we have not been able to buy any steel from Bethlehem Steel.

For example, I got a Wall Street Journal full page ad, "Vice President of Marketing, we would like to help your steel problem." I immediately wrote a letter. I live in Allentown, PA, Bethlehem is like across the street, and I got a phone call back 2 days later, "We would love to service your account. Could you tell us more about it?" I said, "Well, I would like to caution you, we were supplied by you for 15 years, and frankly we would love you to supply us again."

We got a letter back within a week or two saying "We are sorry, we can't service your company, and we can't solve your problem."

Mr. FRENZEL. It was your problem, it wasn't their problem?

Mr. KLEIN. Well, sure.

Chairman GIBBONS. A few years ago, I saw these great big double-page slick magazine ads about the steel industry pushing something—I don't remember what, maybe stock prices or management bonuses. I said "Why don't you ever run some prices in there?" If I want to look at a pretty sunset, I could go to a beach in Florida and look at a pretty sunset, yet that is about all that was in the ads. They never run any prices.

Did they give you any published prices as to what they are selling their product for?

Mr. KLEIN. We are not being quoted now.

Chairman GIBBONS. Even back before then, could you get a good solid offer?

Mr. KLEIN. Yes, there were price books, and we were in the price book and, of course, their excuse was that they didn't engineer the product to be used the way we are using it. We do torture the steel. We put it through 1550-degree Fahrenheit furnaces, but we can import it from Japan and it is not only adequate, it solves our problem. We have factories in Europe using French steel, German steel, Belgium steel, they are very much in business and sell about 90 percent of the blackboard market in Europe. We make and sell about 60 percent of all the blackboard material here in the United States, and our customers will not take the product that we would be forced to produce if we had to buy only domestic steel, if we could get it, but we can't get it anyway.

Chairman GIBBONS. You know, I have been on this committee 15 years. Yet, even before I got on this committee, my local fabricators were telling me roughly the same thing you are telling me.

Mr. KLEIN. These are the facts.

Chairman GIBBONS. But every time we call in the heads of United States Steel and Bethlehem, they claim they are just doing everything right. They claim those dirty foreigners are causing all their troubles.

Mr. FRENZEL. Second to none.

Chairman GIBBONS. You say it is because they didn't have a good nail driver.

Mr. KLEIN. Well, that was a special circumstance. Jones & Laughlin were the last American company, not the last one to make an effort, but the last one that supplied us with a quantity, and they made some change in the steel without asking our permission. The product looked great when it arrived in the plant. We laminated it into building panels. We had a $1 million problem with the quality of the product they shipped to us.

Eventually we didn't go to court, but eventually they gave us $550,000 back and, of course, said "We don't want to see you people again because we can't make your product."

Chairman GIBBONS. Which steel company was that?

Mr. KLEIN. This is Jones & Laughlin, part of LTV. That was an interesting circumstance. Youngstown Sheet and Tube was our supplier, and then they were bought by LTV and also Jones & Laughlin were a supplier and they were doing a good job. When they merged the two, they said "no longer a little company like you can we service you" by two suppliers, so they cut off half of our supply, and then we were left with just Jones & Laughlin.

And it is then that we went to overseas and brought in some samples and found out that there was another world out there that could supply us with a product.

Chairman GIBBONS. Well, I don't want to monopolize all of our time on you. It is a very interesting story.

[The prepared statement follows:]

ALLIANCEWALL CORP.,
Okmulgee, OK, July 26, 1984.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade, Committee on Ways and Means, Longworth House Office Building., Washington, DC.

DEAR MR. CHAIRMAN: AllianceWall Corporation employs over 100 people in Okmulgee, Oklahoma and Atlanta Georgia. It applies a porcelain enamel coating on light gauge steel which is subsequently laminated to a stabilizing substrate such as hardboard, gypsum board, or particle board. These products are used as chalkboards, white boards and both veneer and insulated interior and exterior walls.

The requirements for our steel are that it be thin (0.14"-.019"), wide (up to 60"), chemistry suitable for porcelain enamel, and be flat after the porcelain firing. There are currently no U.S. mills that will attempt to meet our requirements at any price. Consequently, we must buy all of our steel from Japan. The attached paper details the history of our steel purchases over the last twenty years.

Sincerely,

ROBERT L. KLEIN,
Chairman of the Board.

Enclosure.

AllianceWall Corporation, Okmulgee, OK, applies procelain enamel to steel coils in a continuous process. It imports all of its thin gauge steel coils from Japan. Japan started to replace U.S. manufactured steel in a small way in 1978. Since 1981 AllianceWall has been totally dependent on Japanese steel suppliers for its material. There are no American sources available to the company. Several U.S. steel mills over a period of twenty plus years either were suppliers or attempted to become suppliers to AllianceWall, but these sources have all dried up.

AllianceWall has a single manufacturing plant in Oklahoma. Its executive offices are in Atlanta, GA. It exports approximately 15% of its finished product. Annual sales of the American company are $10,000,000 and growing. The American company uses 3,000 tons of thin gauge, 0.014" thick, steel per annum. This steel cost us $1,209,000 or 20% less than our overseas sales. There are currently two Japanese sources with a third Japanese company capable of supplying the product. The current suppliers are NKK and Kawasaki Steel companies.

AllianceWall Corporation also has foreign subsidiaries in Belgium and Denmark. The Belgian company also produces porcelain enamel on steel coils and purchases their material from two mills in Belgium, a mill in Germany and a mill in France. The porcelain enameling equipment and the process is identical.

The history of AllianceWall's steel suppliers is as follows:

1962—Major suppliers United States Steel Corp. and Bethlehem Corp.

1965—(approx.) U.S.Steel withdrew as a supplier. The reason given was our requirements were too small for two suppliers.

1977—Bethlehem Steel notifies AllianceWall it does not wish to continue as a supplier.

1977—Youngstown Sheet & Tube our major supplier and Jones & Laughlin starts as supplier.

1978—First material from Nippon Steel sold to AllianceWall through ARCO, NYC.

1979—Youngstown and J&L merge—Youngstown no longer supplier.

1980—NKK, Japan offers to supply steel. J&L reluctant to ship steel.

1983—NKK and Kawasaki sole suppliers.

AllianceWall has one porcelain enamel on coil steel competitor in the United States located in Port Carbon, PA, their name, Mirawal Corporation. Their single source of steel is a Japanese company also.

AllianceWall uses approximately ten times the amount of material it did in 1964. That is the year U.S.Steel withdrew as a supplier, leaving Bethlehem Steel as a single source. During the next ten to twelve years several steel companies, including Republic, Inland and Armco attempted to become a second source and each time withdrew.

In 1977 Bethlehem Steel formally notified me, then President of the company, that they no longer wished to continue to supply steel for our product. Reject rates were high and they claimed the product was a loser for them and they wanted to withdraw as our source of steel material.

They were replaced by Youngstown Sheet & Tube, a small secondary source at that time. Their product was the same, if not better than Bethlehem Steel's. Within a year, Jones & Laughlin Steel Company became a second source of steel for our company. When LTV, the parent company of J&L, purchased Youngstown Sheet & Tube a decision was taken by LTV that they would remove Youngstown Sheet & Tube as our supplier since the volume did not warrant having both of their subsidiary mills supply us. It was just prior to this time that AllianceWall first tested steel from Japan. This was in 1978.

Within a year, NKK offered to supply us with all of our product requirements. We switched from Jones & Laughlin and 100% to NKK because of a serious quality problem that had not surfaced with the J&L steel until we had processed the steel and some of our customers had already installed the steel panels on buildings. J&L unilaterally decided to change the chemistry of the product and it did not perform properly when installed on buildings.

This was catastrophic for our company. Finally, J&L settled with our company for in excess of a half million dollars in payments to partially reimburse us for the panel replacement necessitated because of the defective panels produced with the defective steel. It if were not that NKK had already been able to service our requirements we would have been out of business.

Again, U.S. Steel was asked to attempt to provide us with product and refused.

During this period there was an advertisement in the Wall Street Journal which states nominally that, Bethlehem Steel would like to solve your steel problems. I clipped the article and sent it on our letterhead to Bethlehem Steel. We got a quick phone call back saying, "Thank you very much, we'll look into this." Within one week I received another call from Bethlehem Steel saying they were not interested in solving our particular problem.

If Congress decides that it is necessary for the good of our country to reduce imports of steel, for whatever reason, we are hopeful that you build into the law provisions for companies such as ours that are unable to purchase domestic steel products. Our company is growing. Our product has a favorable future. If we are told that we can only buy 85% of the previous year's purchases, or some restricting mechanism such as this, it would prevent us from growing and, for that matter, prevent us from supplying not only our current domestic customers, but also gaining the export dollars that are beneficial to the U.S. economy.

We would be willing to document further and, in fact, even solicit letters from those steel manufacturers who have attempted to satisfy our needs that have refused to supply us if this would prove to be necessary or helpful.

I think we have a unique situation and even though we are small, it does affect the lives of over 100 families in both Georgia and Oklahoma, as well as a sizable customer list who depend on us for product that serves their needs.

You might find it interesting to know that a German company in surveying the world chalkboard (blackboards to we older people) market and with the exception of the People's Republic of China and Japan, found that our little company supplies today in excess of 70% of the world's ceramic writing board surface. This is the dominant writing board material used in industrialized nations of the world.

I appreciate your considering our special problem.

Chairman GIBBONS. Utica Cutlery from Utica, NY, is that right?

STATEMENT OF PAUL J. RUSYNIAK, DIRECTOR OF PURCHASING, UTICA CUTLERY CO.

Mr. RUSYNIAK. Mr. Chairman, ladies and gentlemen, my name is Paul J. Rusyniak, director of purchasing for and representing Utica Cutlery Co., Utica, NY. We are a domestic manufacturer of kitchen knives, pocket knives, and stainless steel flatware. Our primary raw materials are stainless steel and carbon steel.

I will not attempt to overwhelm you with statistics. By the time this hearing is over with, I am sure that you will have more than enough statistical data to read through. In addition, statistics normally tell the tale that the teller wants told.

Instead, I wish to appeal to your plain common sense.

You are being requested to impose limitations on the amount of foreign steel that can be imported into the United States. If these limitations are put into place, what will happen? Will the foreign steel mills reduce their capacity by the amount of steel that they can no longer ship to the United States? If you already believe that foreign governments subsidize their steel industry, can you reasonably believe that those governments will allow their employment or balance of trade to be jeopardized simply because they cannot ship all the steel they want into the United States?

The commonsense answer to all of these questions is simply "no."

It is logical to presume that those foreign steel mills will continue producing steel at the same levels of production and sell that steel to the world market, excluding, of course, the United States.

That steel will eventually be converted into finished products and I think it is very reasonable to project that many of those finished products will be exported to the United States.

So what will you have accomplished by limiting the amount of steel that can be imported into the United States? I am suggesting that the only thing you will have accomplished is to divert that less expensive foreign-made steel to steel converters in other countries so that they can produce a product less expensively which will ultimately wind up here in the United States. You may have successfully limited the amount of foreign raw material coming to America, but common sense should tell you to expect an increase of imports made from that raw material.

Our domestic steel industry will have been protected from competition by imports. However, the domestic converters of steel will have been faced with increased competition from imported finished goods, a competition which they cannot economically challenge, the domestic supply has been protected and the domestic demand has dried up. The net gain, as far as employment and balance of trade is concerned, is negative.

As an example, we currently produce forks and spoons in Utica, NY, using stainless steel made in Japan. We have to use this less expensive steel in order to compete with forks and spoons imported from countries such as Japan, Korea, and Taiwan.

If, as a result of your actions, we are no longer able to buy that less expensive steel, we will not buy it from American producers, but will, in all probability, cease domestic production of forks and spoons.

Further, I suggest to you that the Japanese mill currently shipping us that steel will not decrease its production simply because they cannot sell it to us. Instead, they will continue to produce and will sell that steel to flatware makers in Japan, or elsewhere in the orient. As that steel is converted into forks and spoons, it is predictable that much of it will be exported to the United States.

So what is the long-term impact of your limiting steel imports? Let's look at employment first. The domestic steelworkers, whose jobs you are being asked to protect and promote, will certainly not be employed to make steel for the Utica Cutlery Co. In addition, our employees involved in flatware production will lose their jobs. So the long-term impact on employment in America will not be improved, nor will it remain as it is now. Common sense must tell you that it will worsen.

What about our balance of trade deficit? Right now, the import steel we buy is charged against the deficit at raw material values. The cost of conversion into forks and spoons is domestic value added. If we cease production and imports of finished goods increase, the deficit will still be charged with the cost of the imported steel plus the foreign conversion value added. Again, the long-term impact will be negative.

My recommendation, based purely on common sense, is that if you are going to give serious consideration to limiting the amount of steel that can be imported into the United States, you must give similar and simultaneous consideration to limiting the amount of finished goods that can be imported.

Thank you for your attention.

Chairman GIBBONS. Thank you.

I must say we tried that system once. We tried to cut ourselves off and just be self-sufficient and exclude ourselves from all types of foreign intercourse—mainly goods and services intercourse—and it was a disaster. I don't want any country to have to go through that mess again.

I can remember about what it did to unemployment in this country. It skyrocketed. Banks closed and we finally in the early 1930's began to change that policy. Our standard of living is far higher now than it was then. I am sure you don't advocate that policy, but I just wanted to follow up on it for a moment.

Mr. Davis, I assume?

Mr. DAVIS. Yes, sir.

Chairman GIBBONS. Good, fine, we have been expecting you, and we welcome you here.

STATEMENT OF CARL DAVIS, PRESIDENT, DAVIS-LYNCH, INC.

Mr. DAVIS. Thank you very much. I appreciate the opportunity to appear before your panel.

Gentlemen, the U.S. steel industry basically is in rather a sorry state. I realize this information doesn't qualify as a late-breaking news flash, but it does summarize the condition of the industry which I understand the subcommittee is trying to ascertain and possibly improve with legislation.

There are undoubtedly many factors involved in the decline of this once mighty and dynamic American enterprise. Unfortunately, I do not have the expertise to identify all of them. As a purchaser of steel, as one of the industry's customers, however, I can point out to be what I believe to be one of the major causes. It is this.

Our domestic steel industry has failed to adhere to the basic requirements for success in business; namely, the offering of a good product to its customer's specifications at competitive prices and with appropriate customer concern and service.

My company, Davis-Lynch, Inc., is a small oil tool manufacturer. We have been in business for over 36 years, our primary raw material is a seamless tubular carbon grade steel. We also use a smaller amount of alloy grade. Our purchases are made directly with steel mills because our material must be rolled on special order, and this can be only done at a limited number of mills.

We purchased all of our requirements from U.S. mills from our inception until the late 1960's, and we were satisfied with our product and service. Maybe that is all we knew at that time. Our first foreign steel purchase was from Italy, a 21-inch O.D. material that U.S. mills could not roll. Immediately thereafter, we purchased a limited amount of foreign steel when the U.S. mills had problems producing our requirements.

The movement of our steel purchases to foreign sources was not for lack of trying to remain with U.S. suppliers. We continued to purchase from four U.S. mills until the mid-1970's, when Armco and Pittsburgh chose not to sell us any more steel during the shortage.

Chairman GIBBONS. You mean you were customers of theirs and they just quit selling to you?

Mr. DAVIS. Yes; they made this decision even though we had a tonnage purchasing record and were discounting our invoices for prompt payment.

Chairman GIBBONS. When was that?

Mr. DAVIS. In the mid-1970's during the steel shortage.

Phoenix Steel, one of the four, became totally incapable of producing a quality product. Armco also experienced quality problems. We continued with U.S. Steel until the early 1980's, when their quality control and ability to roll our requirements became unacceptable. That is when we tried B&W Steel; that undertaking also failed to provide what we needed.

We then had no choice but to seek a new and reliable source for our raw materials.

Of the several foreign soures we tried, Nippon Steel was the most receptive to our needs, and their quality control was virtually flawless.

Their price was also lower and more stable than the prices of our former U.S. suppliers. It was a welcome change to order steel at a quoted price that was guaranteed to be the invoice price.

Chairman GIBBONS. I have heard that complaint before, too.

Mr. DAVIS. U.S. mills would give us a price at the time of order, but the price in effect at the time of shipment was the invoice price, and it was usually higher. Some U.S. mills delayed shipping our order until a higher price, which they were aware of, was in effect.

Even as we developed new foreign sources, we continued to place some business with U.S. Steel, but only through special effort on our part. Last year, for example, U.S. Steel promised to roll our 21-inch material, and they requested a delay in shipment as long as we could tolerate it. We agreed.

Finally, we told them we needed the steel by no later than June 1 of this year. Their response was that they would not or could not roll the order for us and did not know if they would ever roll that material again.

Chairman GIBBONS. Did they tell you why? Were they too busy or just too lazy?

Mr. DAVIS. No; the mills were shut down. They suggested we try Dalmaine in Italy and the steel did arrive, and they accepted the order. Of course, we didn't give up, and we inquired about other sizes—9⅝ inch and larger; we were told that they could not give us a rolling. We checked on smaller sizes, and their quoted price was nearly 50 percent more than Nippon.

The oil tool industry that we serve has suffered a severe pricing deterioration since 1982. Prices are now so depressed that we have virtually no profit from our operations. If we were to pay the outrageously high prices of the U.S. steel mills, we would be out of business within 1 year.

During the 1982–84 downturn in oil tool demand, foreign mills adjusted their prices downward so that we, as a manufacturer, could continue to purchase raw materials. The U.S. suppliers could not adjust; they could only close their mills and refuse our orders.

Before the oil boom of 1980 and 1981, prices of foreign steelmills were 10 to 20 percent below those of U.S. mills, and the quality of their materials far superior. When we made a profit, we did not balk at the small premiums paid for products of U.S. mills. But when their quality became totally unacceptable, using their products became even more expensive. When you can obtain a product of superior quality at less cost and with better service and delivery from foreign mills, it is difficult not to use those foreign mills.

U.S. mills claim that they need protection from foreign mills. Why? They have not demonstrated ability to handle their own businesses properly. They complain about their tax situation. They maintain that it deters them from upgrading their mills.

How so? All U.S. industry works under essentially the same tax laws. My company does. We bit the bullet and upgraded with new U.S.-built N.C. machines and a new plant. It is true that we are smaller than most steelmills, and the cost for upgrading was lower, but the economic pain is proportional, because we operate from a smaller asset base. We compete, domestically and internationally, against plants that produce products similar to ours. We compete, and we get some business.

If U.S. mills could produce a quality product, at a reasonable price, and become even somewhat customer oriented, I am convinced that their business would improve drastically.

It is now becoming more difficult to purchase my raw materials requirements from foreign mills. They are willing and able to produce for my needs, but they are facing problems in meeting the unofficial import restriction. Their problems are becoming my problems, making it more difficult to manage my business today. If finite import restrictions are imposed, we may very well find it impossible to remain in business.

Chairman Gibbons. We are going to have to have some kind of hearing on this informal arrangement we keep hearing about. That is one of the most widely circulated rumors that I hear. I know about the European arrangement. I don't like it, but I do know about it, and know that it was done under authority of law. Apparently there is something else going on, however, that smacks of antitrust action, and I am determined to get to the bottom of it, even if I must pursue it personally.

Before you got here, I reminded everybody in the room, and everybody that ever looks at this record, that no American official is immune from antitrust action, and the criminal penalties that go with it, as well as the financial penalties that go with it. I hope that everybody who is in an official position will understand that, because I mean to see that that law is vigorously enforced. If I have to enforce it, I will enforce it from here.

So any information or anything that you can get and gather and feed back to me or this committee about those arrangements, I would like to have. I don't care whether they are foreign arrangements. The foreigners are doing business here, and they are subject to our antitrust laws as soon as they get off the dock or get off the airplane. So I want that information. I want to hunt for that information starting right now.

The appropriate officials in our Government have denied that they have promoted any kind of arrangements that are outside the law.

Mr. DAVIS. Basically, there are some things going on that are putting the heat on.

Chairman GIBBONS. That is correct. There is an odor around so there must be a skunk somewhere.

Mr. DAVIS. Because, basically, they don't want to miss a sale. They are willing and able to produce what you want, but they are running scared.

To sum up my little presentation, from my vantage point the U.S. steel industry began to deteriorate in the late 1960's. The choice between American-made and foreign steel soon thereafter became a choice between patriotism and profit, because of the lower foreign prices.

I stayed with patriotism for a long time. It has now slipped to a choice between business suicide and survival. I take pride in American industry. I am a part of it. I do not fully understand the plight of our steel industry. I sympathize with it, but I cannot patronize it, not as long as its quality, service, delivery, and price are far below that of foreign mills, and as long as doing business with it threatens the continuation of my business.

Thank you very much, gentlemen. I appreciate this opportunity.

Chairman GIBBONS. Well, I am glad you were able to get here. I don't know what any of you pay your workers, and that is between you and your workers, but the American steel industry pays its workers almost twice as much as the average American industrial wage. That would be all right if the productivity were there to sustain it. But the productivity isn't there, because those workers, as hard as they work, have to work with lousy tools and inefficient processes.

It has been pointed out here time and time again that in Japan, for example, over 80 percent of the steel is continuously cast, and I just learned this morning that the plate is desulfurized to get high quality out of it.

In Europe, as backward as we sometimes think they are, 60 percent of their steel is continuously cast, and in the United States, we have gotten up to only 30 percent. We are doing real well. We were building open hearth furnaces when everybody else was building oxygen furnaces. Here in this country we have got one set of American business and labor trying to get everybody else to carry them.

I went out to the west coast to learn about airplanes and lumber, and learned about steel. Everywhere I went, people out there wanted to talk about steel. They said, "we are former steel fabricators. We just went out of business because we can't get steel."

For 15 years fabricators in my area have complained that they can't get a quote and a delivery at the same price. The steel industry, as far as I know, never publishes any prices. As long as I have been around, they have never published them in all the ads I have seen, and they certainly won't guarantee delivery at that price.

Today we have had a high quality manufacturer telling us, before you came in, that he had quality problems. He went to the Sparrow's Point plant up here in Baltimore that Bethlehem runs and saw them beating his steel all to pieces before they ever got it to him. They claimed they couldn't find the material that he had sent them for analysis for defects, but yet when he walked into the laboratory of the plant, it was laying right there on the table. They lost track of it. They are so big and so indifferent and so inefficient that they can't keep up with what is going on.

And we had a pipe manufacturer here before you arrived who gets 10 times the rejection rate on high-quality plate steel from U.S. sources as from foreign sources. This manufacturer can buy the finished product that he fabricates cheaper than he can buy high quality U.S. steel.

It doesn't make any sense. There is something goofy going on in this whole picture.

Mr. DAVIS. Basically, I think that the majority of people would rather purchase U.S. products if they possibly could.

Chairman GIBBONS. I run into that all the time. My people down in Tampa tell me that same thing. They would rather buy U.S. products.

Mr. DAVIS. Until you get put to the wall, and then you have to do something to stay in business.

Chairman GIBBONS. That is right, but if the choice is to buy elsewhere or go busted, they will buy somewhere else.

Mr. KLEIN. Last year I went over to Taiwan to the China Steel Co., again looking for a second source overseas, and at lunch time I went into a large hall where there were a lot of people having lunch. And there was a table right next to where I was seated with people that looked like Europeans and Americans, and I asked the Chinese who they were. This was a table of about 35 or 40 men having lunch. They were from Westinghouse and United States Steel, and I asked what they were doing there, and they were the ones that were perfecting the plant for the Chinese.

And I started to wonder in my own mind why they weren't back in the United States doing the same thing for our own industry.

Mr. FRENZEL. They probably like Chinese cooking.

Chairman GIBBONS. Well, there is something wrong with the U.S. steel industry, there is no doubt about it. I really believe it begins at the top. Our Government has had some responsibility for the sorry state of the steel industry, but we can't be the only cause. They can always find capital to buy golf courses and beach front property down in my area and oil companies and everything else, but they can't find any capital to modernize their own plants. I don't know what the problem is.

Mr. KLEIN. We have a producing plant in Belgium which does exactly the same thing we do, and it is a wholly owned subsidiary. There the depreciation laws permit with new equipment a 100-percent writeoff in the first year that the equipment is installed. I think our depreciation laws in America are better than they were a few years ago. There has been an improvement, but that is tough competition. We buy the same equipment in the United States and must amortize it over a longer period than over there. That is also I think part of the steel companies' problem.

Chairman **Gibbons**. Well, I tried to get the Congress to allow an even more rapid writeoff, but I got beat on the floor a couple of years ago, and I had to leave politics out of it.

Mr. Frenzel?

Mr. **Frenzel**. I want to thank all the witnesses for their testimony. At the beginning of the day I found it exhilarating, but after repetition, it is certainly depressing.

Mr. Rusyniak, you would like to be able to buy foreign steel on a regular basis, but your industry seeks to protect its sales within the domestic market by, "buy America" amendments to some of our appropriations bills. Wouldn't you think that what is sought for the goose ought to apply to the gander too?

Mr. **Rusyniak**. Mr. Frenzel, I cannot answer what has been going on as far as the Flatware Manufacturing Association is concerned. My example given, coincidentally, turned out to be a simplistic approach of looking at a spoon rather than looking at a Caterpillar tractor.

However, the current situation is, for example, that the specialty steel makers here in the United States do have protection from imports, either due to imposition of quotas or tariffs.

Yet, the International Trade Commission has recently denied that same kind of protection to the users of stainless steel strip, that is, the American Flatware Manufacturers.

So there is no pun intended, but it is a two-edged sword. You take away our raw material availability, turn it over to the people that are competing against us, and then not give the same protection to our industry.

But I am not asking for industry protection. I am not asking for special interest group. As a matter of fact, I am not even suggesting, Mr. Chairman, that you apply import quotas or tariffs to all finished goods.

It would be ridiculous. But the recommendation starts out with, if you are going to give serious consideration to limiting imports of raw material, then you must give—et cetera.

Mr. **Frenzel**. Thank you. You have proved Shakespeare to be right when he mused about the tangled web we weave, it has become hopelessly snagged, I think, over the years.

I thank you all and appreciate your testimony.

Chairman **Gibbons**. Thank you, gentlemen.

Next we will hear from Copperweld; Committee for Domestic Steel Wire Rope & Specialty Cable Manufacturers; and Continental Steel Corp.

The gentlemen from Copperweld. Go ahead.

STATEMENT OF R.C. SCHNATTERLY, MANAGER, MARKETING SERVICES, COPPERWELD TUBING GROUP, COPPERWELD CORP., ACCOMPANIED BY MARK ROY SANDSTROM, COUNSEL

Mr. **Schnatterly**. Thank you. Good morning.

Chairman Gibbons, members of the committee, my name is Chris Schnatterly. I am a manager of marketing services for the Copperweld Tubing Group, and I appreciate the opportunity to represent the Group and Copperweld Corp., with facilities in the States of Ohio, Pennsylvania, Maryland, Illinois, Indiana, New York, and Tennessee, in these important deliberations by the U.S. House of Representatives.

And in the interests of time, I would like to briefly summarize my written testimony.

Copperweld has five basic messages to leave with you today.

No. 1, Copperweld is different from many of the major integrated steel producers you have heard from during the course of these hearings.

We are a speciality steel company. Our profit margins have been historically higher and our ability to fund capital improvements relative to our size has been greater than the basic steel industry.

Our plants are modern, and our technology is current.

Point No. 2: Despite these financial strengths, we are in the same predicament as basic steel when it comes to imports.

Imports are distorting our markets through pricing structures that bear no resemblance to the real costs of production. This distortion has resulted in a work force reduction that ranges from 33 percent to 84 percent among the four plants within our tubing group.

Further, we have had to abandon expansion plans that would have created new jobs and improved local economies.

Point No. 3: Although Copperweld has been a Fortune 500 company and currently has sales of about $300 million, we are small by steel industry standards. When you extrapolate the effects of imports on our business to the much larger basic steel industry, the crippling damage that imports are having on one of America's foundation industries is evident.

Point No. 4: We and others in our industry do not object to competition. We object to unfair competition, competition that is subsidized by foreign Governments to the extent that they can sell their products in our markets for less than the cost of production or they can dump them here for less than they sell them at home or elsewhere.

Despite many cases brought by the steel industry where trade violations by foreign steel producers has been proven, time and time again, the steel industry's exercise of its legal rights has not brought the relief which is required and appropriate.

In addition, the administration's trade policy has too often been subjugated to the interests of large U.S. commercial banks or national foreign policy.

And finally, point No. 5, although we have never been in favor of quotas in the past, the severe damage being inflicted on the U.S. economy, the inability of the steel industry to obtain fair redress of grievances through current trade laws, and the accelerating violation of these laws by foreign producers leads us to our position in support of H.R. 5081.

Thank you for the opportunity to present these remarks.

Chairman GIBBONS. Thank you, sir.

[The prepared statement follows:]

STATEMENT OF R.C. SCHNATTERLY, MANAGER, MARKETING SERVICES, COPPERWELD TUBING GROUP, COPPERWELD CORP., PITTSBURGH, PA

I appreciate the opportunity to represent Copperweld Corporation and its Tubing Group in these important deliberations by the U.S. House of Representatives. The outcome of these hearings could have far-reaching implications on the U.S. balance of trade, employment and the local economies of America's heartland. I hope that our point of view will prove useful as you consider H.R. 5081.

My messages to you subcommittee are fivefold:

(1) Copperweld is different from many of the major integrated steel producers you will hear from during these hearings. We are a specialty steel company. Our profit margins have been historically higher and our ability to fund capital improvements, relative to our size, has been greater than the basic steel industry. Our plants are modern; our technology is current.

(2) Despite these financial strengths, we are in the same predicament as basic steel when it comes to imports. Imports are distorting our markets through pricing structures that bear no resemblance to real costs of production. This has resulted in a work force reduction during the recent recession that ranged from 33 percent to 84 percent among the four plants that make up the Copperweld Tubing Group. Further, we have been forced to abandon expansion plans that would have created new jobs and improved local economies.

(3) Although Copperweld has been a Fortune 500 company, we are small by steel industry standards. When you extrapolate the effects of imports on our business to the much larger basic steel industry, the crippling damage that imports are having on one of America's foundation industries is evident.

(4) We and others in our industry do not object tc competition. We object to unfair competition—competition that is subsidized by foreign governments to the extent that foreign producers can sell their products in our markets for less than the cost of production or can dump them here for less than they sell them at home or elsewhere.

(5) We endorse and support the provisions of the Fair Trade in Steel Act, and are more than happy to abide by the reinvestment and modernization requirements of the Act.

In summary, those five points form the cornerstone of Copperweld's position on H.R. 5081. I will examine each in some detail.

I. BACKGROUND ON COPPERWELD CORPORATION AND COPPERWELD TUBING GROUP

Copperweld Corporation is a Pittsburgh-based manufacturer of welder and seamless tubing, bimetallic rod, wire and strand, and specialty carbon and alloy steel bars.

Copperweld's sales in 1983 were $325,475,000. We employ 3,248 people in eight domestic plants in Illinois, Indiana, Maryland, New York, Ohio and Tennessee and in four overseas plants in Luxembourg, Japan and Brazil.

The company's 8.6 million shares of common stock are traded on the New York Stock Exchange and we are owned by 4,300 shareholders. Copperweld is fortunate to have plants that are modern by both world and domestic standards. We have reinvested more than $165 million in the business during the past five years, and more than $265 million during the past ten years.

Throughout the 1970s, and into the early 1980s, Copperweld's capital programs dramatically boosted our productivity and capacity. During that time, we built Greenfield facilities near Fayetteville, Tennessee, and in Oswego, New York for our Bimetallics Group. Our Steel Group has spent more than $75 million to improve efficiency during the past ten years. In the Tubing Group, we built a new Greenfield facility at Shelby, Ohio, next to an existing plant that has been completely modernized during the past two years. Both are now state-of-the-art production facilities for drawn-over-mandrel (DOM) tubing, one of several product lines where we hold a market leadership position.

Copperweld developed and is the world's leading producer of drawn-over-mandrel tubing, and much of it made at the two Shelby plants. As an interesting aside, the oldest of the two plants dates back to 1890, and is the birthplace of the seamless tubing business in the United States. The plant was built to supply tubes to bicycle manfacturers. The economic rationale for the plant was that imported tubing was too expensive. How times have changed!

During the past few years, Copperweld has also made a number of acquisitions for its Tubing Group and has spent several million dollars upgrading them. These include Regal Tube in Chicago, American Seamless Tubing in Baltimore and Copperweld Tube Finishing in Hamlet, Indiana.

The past decade has also seen a commitment to the export business. We have established a base of operations in Europe, and we normally export about five percent of our tubing production through agents in 75 countries around the world. Our DOM tubing is produced through a proprietary process that is respected worldwide, and foreign buyers turn to Copperweld to receive world class quality for demanding applications.

Our position as a technology leader and as a modern producer sets us apart from many of the larger steel companies, who, despite major investments, are still saddled with antiquated capacity and commodity products.

II. THE IMPACT OF IMPORTS ON COPPERWELD

In short, we entered the recession with modern, highly efficient facilities in most of our operations. But despite our advantages, we, too, have been heavily impacted by unfair trade practices. The U.S. recession, magnified in intensity by growing imports, has reduced Copperweld's overall employment by 28.7 percent over the past two years.

Copperweld's sales in 1983 were down 47 percent from 1981 levels. Net income in 1981 was $37 million; in 1983, we lost $22 million, about half of which was attributable to plant closings brought about by foreign competition.

In 1981, Copperweld paid $31.2 million, or 45.6 percent of pre-tax income, to the U.S. Treasury. In 1983, we had an income tax benefit of $19.6 million. In other words, the swing in lost tax revenue for the U.S. Government was more than $50 million. And keep in mind that Copperweld is one of the "little guys" in the domestic steel industry.

Our shareholders have seen their dividends cut nearly in half from 1981 levels, to 58 cents a share from $1.07 a share.

Some portions of our business have been more severely affected by imports than others. The Copperweld Tubing Group, which represents about 38 percent of Copperweld's overall tonnage, had an employment decline of 45 percent between 1981 and 1983.

Within the Tubing Group, direct correlations between imports and employment declines can be drawn. Imports of seamless specialty steel tubing captured 45 percent of the U.S. market in 1982; employment at our American Seamless Tubing operation has been reduced 84 percent. Imports of structural steel tubing reached 24 percent of the U.S. market in 1982; we have had workforce reductions of 37 percent at our Regal Tube Company operation as a result. In the Tubing Group alone, 700 employees are on furlough. Corporate-wide, our work force is down by 1,300 from 1981 levels. Our current active employees have all experienced either painful wage freezes or outright pay cuts, along with reduced benefits.

With our modern facilities and non-commodity orientation, Copperweld has begun to improve its performance. We earned a slight profit in the fourth quarter of 1983 and reported a substantial improvement in the first quarter of 1984, when compared to year-ago performance. However, these levels of profitability are inadequate to support any sustained major reinvestment program.

While we are recovering somewhat, we are currently in a position of treading water. By comparison, the basic steel industry is drowning. And we believe a healthy basic steel industry is critical to America's economic stability.

III. THE IMPACT OF IMPORTS ON THE STEEL INDUSTRY

The domestic steel industry currently is locked in a vicious spiral of decline. Foreign government-subsidized mills have continually sold products in the U.S. market for less than the cost of production. U.S. manufacturers have witnessed erosion of margins and market share as a result. The outcome is miniscule or non-existent profits, and the resulting inability to completely finance necessary modernization. Thus, as the U.S. steelmaking capacity becomes more and more antiquated by world standards, relative cost of production is higher.

Imports began hitting the U.S. market in small quantities after World War II. In the 1950s, imported steel had a market share of slightly more than 2 percent. A decade later, that percentage increased to 9.3 percent. By the 1970s, imports' market share reached 15.3 percent. But the 1980s have seen a virtual explosion in this trend. In 1982, imports took nearly 22 percent of the U.S. marketplace, and remained above the 20 percent level in 1983. In January of 1984, imports captured 26.1 percent of a depressed U.S. market.

Some arguments have been advanced that the U.S. should allow its "smokestack industries" to die a natural death and that they will be replaced in the arena of international trade by the service sector and high technology. According to Data Resources Incorporated in its Report on U.S. Manufacturing issued in January, 1984, this scenario does not entirely hold water. True, computer exports continue at high levels. However, other industries that were net gainers (exports less imports) last year were tobacco, food, lumber and wood, paper and chemicals. Net losers were apparel, petroleum, leather, steel, electrical machinery and miscellaneous manufacturing. The statistics would suggest that we are reverting to a "colonial" trader, supplying the world with products that are primarily raw materials rather than value-added manufactured goods.

Meanwhile, the rate of steel imports has increased. At the present rate, some 25 million tons of steel will be imported into the U.S. this year. Consider that in 1982, only 16.9 million tons contributed to a U.S. trade deficit in steel of approximately $8 billion, one quarter of the total deficit this year. In addition to the trade deficit, the 25 million tons equates to 117,500 lost steelworkers jobs, and 350,000 lost jobs in related industries. The lost payroll, and tax base, in steel alone is $2.5 billion.

Imports are costing the U.S. treasury tax dollars from what used to be a gainfully employed work force. But they are also costing the treasury lost corporate taxes. In 1981, the industry's last profitable year, the nation's 16 largest steel firms (representing 80 percent of domestic capacity) reported operating profits on steel totalling $2.4 billion. Assuming the industry had been healthy and tax loss carryforwards did not exist, corporate taxes would have been approximately $1 billion.

But in 1982, the industry lost $2.8 billion, which will later shelter profits from taxes. In other words, the swing between unprofitable and profitable operation in just one year would equate to more than $2 billion in lost tax revenues—revenues that could help stem the swelling federal budget deficit.

The flip side of the tax question is higher government costs for unemployment compensation, welfare and other entitlement programs. It is probable that many of the 200,000 steelworkers that have lost jobs between 1979 and 1983 have found other employment. But it's also true that another 100,000 are on layoff or on a short work week. At least one third of the employees in upstream supporting industries such as coal and iron ore mining, railroad, lake and river transportation and refractories are also jobless. And one third of downstream steel distribution and services workers are without work.

In addition to the economic calamity brought upon the United States by imported steel, there are also serious ramifications for the national defense. Skeptics may point to the fact that more than half our imported steel comes from relatively stable allies in Asia and Europe. But a growing portion—more than one third in 1983—comes from developing countries with governments of varying stability. Moreover, steel from our more stable allies, Canada excluded, must still cross an ocean to get to us.

The problems in the steel industry and the ramifications of those problems have received widespread media attention, and have relatively high public awareness. For purposes of these hearings, however, the key question is: How much of the problem is related to foreign steel being unfairly and illegally dumped on America's shores, and how much of the problem is of the industry's own making.

IV. THE ROOT CAUSE AND IMPACT OF UNFAIR FOREIGN COMPETITION

To understand the impact of foreign steel on U.S. markets, one must first understand the worldwide economic and socio-political pohenomena that have led to today's crisis.

Today, a huge glut of excess steelmaking capacity overhangs world markets. The excess is estimated to be about 200 million tons. To put that number in perspective, consider that U.S. total domestic capacity is about 136 billion tons.

The worldwide glut has developed for a number of reasons. First, about a decade ago, worldwide steel demand was extremely strong and supplies of some steel products were short. But this economic justification for expansion was far exceeded by political justifications, both in developing and in developed countries. Japan and European Economic Community steel producers, for example, added 100 million tons of new steelmaking capacity during the 1960s and 1970s. This amount was far in excess of home market requirements, as evidenced by consumption in these markets during 1981, the last year of strong world steel demand. In 1981, domestic steel consumption was only 52 percent of rated capacity in the EC and only 46 percent in Japan.

Concurrent with the development of excess capacity in the developed world was the growth of steel industries in developing nations, financed in large part through multilateral lending institutions. Easy credit from U.S. commercial banks compounded the problem, thanks to U.S. government guaranteed loans to support new steel plants in developing countries. Today, South Korea supplies the U.S. with more steel than West Germany. In 1983, Brazil and South Korea accounted for about three million tons of steel imported into U.S. markets, compared with about four million from the European Economic Community.

The development of steel capacity representing many times home market requirements has been predicated not on economic realities, but upon political objectives. By insulating their own markets from imports and by providing virtually unlimited state funding, foreign governments in effect are propping up a highly overbuilt industry that is not subject to normal supply/demand pressures of a free market. If these foreign industries had been subject to free market pressures, their industries would have contracted, as the steel industry has done in the U.S.—from 160 million tons of capacity in 1977 to 134 million tons today.

In the past nine years, Europe's state-owned and managed steel companies have lost more than $21 billion and have received more than $25 billion in government support. They are receiving an additional $20 billion to modernize their existing plants between now and 1985. Roughly half of total EC capacity is under direct state control, and another 20 percent is dependent upon the state for support. These operations function more to assure a lower unemployment rate than to compete in a fair and open market.

European political objectives have been to preserve employment in the face of declining economies, through subsidies to the steel industry, and export of steel products. Japan has operated under a slightly different, but no less damaging, set of political objectives. Throughout the 1950s and into the 1960s, Japan's Ministry of International Trade designated steel as a "chosen" industry, with the goal of dominating world export markets. As a result, the steel industry received preferential access to capital and tight restrictions against imports into the Japanese market.

Advanced developing countries, too, have used the steel industry as a means to achieve political objectives. Between 68 and 75 percent of steelmaking capacity in Brazil, Mexico and South Korea is state owned. Large, capital intensive integrated steel facilities have been constructed as an expression of national prestige, and despite exceptionally high state support and access to international sources of cheap capital, most of the advanced developing nations' steel plants operate in the red. These industries are also protected against imports in their home countries through high tariffs, import licenses and other obstructions to free market trade.

But there is one country in the world that has a domestic industry that does not have the capacity to meet normal demand, is easy to gain access to, and has a predominantly vibrant and healthy economy. That country is the United States, an ideal target for exports of overbuilt foreign steel companies.

The underlying issue, however, has little to do with imported steel, per se. The issue involves predatory pricing by foreign producers, who must expand exports to keep production levels high at any cost. Steel is capital intensive and a high fixed cost business. As a result, sustained profitability requires relatively high operating rates. The U.S. solution to obtaining high operating rates has been to shrink capacity. The foreign solution has been to dump steel in the U.S. market at prices that are often below the cost of production, or below the prices charged in the home market or other export markets. Subsidization is another unfair trade practice that is widespread. It occures whenever a government provides direct cash grants, forgives operating losses, assumes costs or expenses, or provides assistance of money, goods or services at preferential rates.

Both dumping and subsidization distort world trade and undermine free trade principles. They have also resulted in massive damage to the U.S. steel industry, as domestic producers lose production volume. The volume decline creates higher operating costs per ton, because of the high fixed costs. Lower volume and high fixed costs translate into reduced profit margins, the shipment of jobs overseas, and, most important, the loss of cash flow necessary to modernize facilities.

The damage has been occurring for several years now, and it is accelerating. Japanese and European dumping during 1976–1977 cost U.S. steel companies and their employees more than $4 billion, according to a 1978 study by Putnam, Hayes & Bartlett, Inc., the private economic consulting firm.

For the 1979–1981 period, European government subsidies alone resulted in a drop in domestic shipments of 6.5 million tons and gross revenue losses of $3.2 billion, according to a report by Dr. Lawrence R. Klein, the Nobel Prize-winning economist.

Theoretically, there are vehicles whereby a U.S. company can obtain relief from injury due to dumped or subsidized products. This relief is supposedly available through U.S. law and GATT, the group of international trade rules and agreements. But time and time again, when U.S. steel producers have sought and proven damages, they have found claims subordinated to the foreign policy needs of the United States government and the U.S. commercial banking system.

For example, following the failure of the Trigger Price Mechanism to resolve trade disputes, domestic steel producers filed nearly 100 antidumping and countervailing duty petitions against 11 foreign countries. The U.S. Commerce Department found that six EC countries had subsidized their exports to the U.S. at margins of up to 26 percent. Additionally, the Commerce Department found preliminarily that five EC countries and Rumania had dumped steel in the U.S. at margins of up to 41 percent.

At that time, the international political arena consisted of issues such as the Soviet natural gas pipeline, the stationing of new missiles in Europe and a major trade dispute over agriculture.

While the U.S. softened its stance due to these issues, the EC agreed to settle most of the outstanding cases through quantitative restrictions. This solution was better than nothing; but it did not compensate for the injury incurred by the U.S. steel industry.

The subsidy margins of these 1982 cases pale by comparison to what is going on with advanced developing country exports to the U.S. market today. These countries have combined to capture 10 percent of the total U.S. market, and most of this amount is clearly dumped or subsidized. The Commerce Department recently determined, for example, that dumping margins of up to 76 percent existed on Brazilian steel plate and sheet imports. According to Alan F. Holmer, deputy assistant secretary for import administration in the Department of Commerce, 65 percent of the 800,000 tons of Brazilian steel imported into the U.S. last year is now covered by dumping or countervailing duty investigations. Some 75 percent of total Mexican imports and 69 percent of Argentine imports in 1983 are also under investigation.

The Copperweld Tubing Group participated in several suits through our affiliation with the Committee on Pipe and Tube Imports. The committee brought suit against Korea and Taiwan, and the Commerce Department preliminarily found dumping margins of 9.7 percent, 38.5 percent and 43.7 percent on small diameter circular welded tubing. We are awaiting a final ruling from the International Trade Commission.

The net result of attempts to use U.S. and international law to redress grievances to date has not been effective. Despite clear proof of wrong-doing by foreign governments, U.S. steel producers have been unable to obtain fair retribution. Moreover, attempting to obtain redress has been time consuming and costly for both the steel producers and the U.S. government. Consider that the cost to a trade group or company bringing an action can range from more than $200,000 to well over $1 million in outside legal fees alone, not counting the hundreds of hours of management time spent on these efforts. Moreover, the Committee on Pipe and Tube Imports cases were filed with the Commerce Department more than one year ago, and we have yet to see a final determination from the ITC, as of this writing. This is typical of the time lapse in these cases.

With the failure of existing U.S. and international laws to work, we believe it is time for a new approach to the problem—before the domestic steel industry is lost.

V. WHY COPPERWELD SUPPORTS THE FAIR TRADE IN STEEL ACT

The Fair Trade in Steel Act recognizes that:

The domestic steel industry faces a serious decline, brought about by subsidized and dumped imports capturing a growing share of the U.S. market.

Due to its reduced market share, domestic producers are unable to operate at efficient rates of production that will create profits necessary to modernize and expand the industry.

Previous efforts to assure fair trade practices with exporting nations have failed dismally.

In our opinion, the act is fair to the public and fair to the industry. In return for a cap on imports of approximately 15 percent for five years, the industry must invest in modernization programs. It will be much easier for the Commerce Department to monitor our industry and the extent of reinvestment than it is to study hundreds of dumping actions against imported steel. If, at any time, the Commerce Department determines that investment is not made at appropriate levels, it can suspend the quotas.

Two fundamental questions are raised by the bill:

(1) What will the limitations on imports do to American foreign policy and our relationship with our allies? In fact, the 15 percent level would result in a market

that is still far more open than the EEC, Japan, South Korea, Brazil and virtually every other steel exporting nation.

(2) What are the assurances that U.S. producers will use their profits to modernize rather than diversifying into other businesses? In addition to government watchdog role established by the act, the industry has clear economic self-interest to reinvest in modernization. As a capital intensive industry, steel has in place billions of dollars of assets. Given the choice between liquidation of those assets and making them profitable through new investments, the business decision to reinvest is the only logical course of action. In Copperweld's case, for example, we have tabled some major new expansion programs during the past two years because market pricing of products was held artificially low by subsidized and dumped imports. I believe our directors would look much more favorably on such projects in a more orderly market situation.

In closing, I think it is important to point out one major fact surrounding the steel industry's support of quotas. It is a first. Despite the beating the steel industry has taken since the late 1960s, this is the first time we have asked government for a quota system. We are by nature and inclination fair traders. Among domestic producers, we are intensely competitive, and we enjoy a good fight. But we finally have come to the realization that the dumping and subsidization of import problem has been caused by governments—foreign governments. The only way to address it is through action by our own government.

At Copperweld, we recognize that we are more fortunate than many in the industry. We have been profitable for two consecutive quarters, although our return on sales has averaged only 2.4 percent, well below the profitability levels for most manufacturing industries. We are a technology leader, and intend to remain in the forefront of specialty steel technology. But, while we may not have suffered as much at the hands of imports as the larger domestic steel producers, we are in support of the steps recommended to address the import issue. Sooner or later, if left unchecked, foreign subsidized industries will take over a larger and larger share of America's basic industrial and manufacturing needs, leaving the U.S. vulnerable and propelling our trade deficit well beyond 1983's record levels. As a company, as individual employees, as managers and as stockholders, we completely support H.R. 5081.

Chairman GIBBONS. The Committee for Domestic Steel Wire Rope & Specialty Cable Manufacturers.

STATEMENT OF CHARLES W. SALANSKI, CHAIRMAN, COMMITTEE OF DOMESTIC STEEL WIRE ROPE & SPECIALTY CABLE MANUFACTURERS, AND EXECUTIVE VICE PRESIDENT, WIRE ROPE CORPORATION OF AMERICA, INC., ACCOMPANIED BY HERBERT E. HARRIS II, COUNSEL

Mr. SALANSKI. Chairman Gibbons, Congressman Frenzel, I am Charles Salanski, executive vice president of the Wire Rope Corporation of America, located in St. Joseph, MO. I also serve as chairman of the Committee of Domestic Steel Wire Rope & Specialty Cable Manufacturers, whose members produce most of the steel wire rope manufactured in the United States.

First, I would like to advise you that we have a prepared full statement and ask that it be entered into the record.

Chairman GIBBONS. Certainly it will be.

Mr. SALANSKI. With your permission, I would like to make a few comments in addition to that.

I have a slightly different story to tell than all of those who have preceded us this morning.

Chairman GIBBONS. That would not surprise us.

Mr. SALANSKI. It would be nice to have a little shift of gears.

Chairman GIBBONS. There is a basic dichotomy between the stories we hear. You heard a part of the stories here this morning. We are hearing both sides. Somewhere there is some truth out there.

We are searching for that truth.

Mr. SALANSKI. I think our story is a little unique. It might help break the ebb and flow of what has been going on this morning. We are not big. In magnitude, we would be less than two-tenths of a percent of the steel produced in the United States.

But we do have a product which is essential. This is our product. It is wire rope. This sample is medium diameter of a standard construction.

But our industry makes wire ropes and cables that are as small as one sixty-forth of an inch in diameter, using wires that are as small in diameter as the human hair, to ropes 5 inches in diameter, which are used in Ohio in the largest drag line now used for mining coal.

Our raw material is in this product. It is high carbon rod. We take this, and draw it into wire, we form the wires into strands, put the strands around the core, and we have a wire rope, the final product.

This product we call a machine. It is a machine, and it is used to transmit force. It is designed and manfactured like any machine to precise tolerances so that a wire rope like this one, which will have 199 individual wires that have to work together smoothly and adjust, so each one bears its own portion of the load, is capable of performing.

Now, within the steel industry, this product is unique. The engineering precision required for this conversion from rod to this sophisticated machine called wire rope creates an added value of 200 percent, which is substantially higher than the value added for conversion from rod to any wire or other wire product.

We are also unique, we feel, due to the diversity of our product use, both by application and related market locations. Without wire rope, there would be no high lifts made, you would not be able to make any very heavy lifts, you would have no high-rise elevators, suspension bridges, oil wells drilled or serviced, no open pit underground mining, no ships or barges loaded, unloaded, towed, anchored, no cranes operated in factories.

There would be no tail buildings built, no plants constructed. You would have no aircraft control cables, you would have no arresting gear on aircraft carriers.

We contend that wire rope is essential to our country's overall production efforts and its industrial base, as well as essential to national security.

Now, the variety and breadth of these applications require our industry to serve users coast-to-coast and border-to-border and that is exactly what we do. I would refer you to the map over there.

We have 11 production facilities that are spread from the east coast through the Midwest to the west coast. But the real key to servicing this diverse market area is customer service, and that is provided through a distribution network that has 135 field distribution centers or warehouses, indicated by pins, located strategically throughout the United States to meet the market demands.

Now, the health of our industry not only affects those areas where we have manufacturers located, but every geographic area where we have customers that need to be served.

The domestic wire rope industry is well over 100 years old in the United States. But we have not been without change. In the past

25 years, we have shrunk from 20 major manufacturers to 9 survivors.

Some went completely out of business and some consolidated into other companies. We present a blend of organizational structures. Two manufacturers are divisions of integrated steel companies, others are divisions of larger holding companies, and some are totally independent and privately held.

But all of us take rod and manufacture wire rope. In a move from 20 to 9 manufacturers, we have already been rationalized. Yet, through this shrinkage, we have been able, through a history of significant capital investment to increase our total capacity to produce wire rope.

I can personally attest to the fact that these surviving companies are tough competitors. They are lean. We have—please listen to this—we have an average wage equivalent to the national average for industrial manufacturing.

Before the injury period, we invested heavily to maintain equipment, procedures and technologies that I assure you are state of the art compared to manufacturers of wire rope anywhere in the world.

I will refer you to the graph to illustrate what has happened to our industry relative to imports and their share of the market.

We have selected 1975 through 1981 to be a base period, which illustrates the ebb and flow of import penetration through normal business cycles affecting the volume of sales of wire rope.

The dotted line is drawn at 24 percent. We contend that this represents the average penetration level by imports during the ebb and flow of the business cycles and demand and consumption during that period of time.

But please note that in 1982 and 1983, there is an abrupt departure from that trend, and we see a very significant increase in the penetration level of imports into our markets.

The second graph, which would coordinate to that, shows pricing for the product. From 1975 to 1981, again the base period, you will see the pricing is relatively stable, in spite of the ebb and flow that was represented in the preceding graph during that period of time.

Wire rope is inelastic, and the pricing was relatively stable until we have the period again, what we call the injury period, 1982 and 1983.

Brian, if you would just put the one next to the other—you can see there is a direct relationship in pricing of the product to the significant increase in penetration of imports.

What happened was the importers continued to target and reduce their prices, the domestic manufacturers also reduces their prices, trying to maintain customers and market share.

But the bottom simply dropped out. It was reported by the ITC in an earlier investigation that imports from Korea were found to be sold at margins of underselling of 50 percent and greater, and that is the reason we had the price depression.

In 1982–83, the depressed prices and lower sales volumes for domestic manufacturers caused lower production levels, caused operating losses. We have had wage and salary reductions, layoffs, terminations, and we have taken other significant cost reduction moves.

But we still have the same problem facing us. On July 24, the International Trade Commission indeed found that this injury from imports to our industry was real and was serious. But their recommendation for relief of a 12-percent additional tariff to a product being sold at margins of underselling of 50 percent is totally inadequate to correct the problem.

To meet the needs for adequate relief as well as to treat fairly all of our trading partners who export wire rope to the United States, quantitative restrictions must be implemented.

Therefore, we urge you to amend the Fair Trade in steel legislation to include wire rope as a covered product, and establish a quantitative limit of 24 percent of the market.

Thank you for this opportunity.

Chairman GIBBONS. Then we would have to amend the bill to include everything that included wire rope, and so on and so on, and pretty soon, we would get up to the ridiculous.

That is the only problem with your suggestion.

[The prepared statement follows:]

STATEMENT OF CHARLES W. SALANSKI, CHAIRMAN, COMMITTEE OF DOMESTIC STEEL WIRE ROPE & SPECIALTY CABLE MANUFACTURERS

I. INTRODUCTION

Mr. Chairman, Members of Congress, my name is Charles W. Salanski. I am Chairman of the Committee of Domestic Steel Wire Rope & Specialty Cable Manufacturers and I am also executive vice-president of Wire Rope Corporation of America, St. Joseph, Missouri. The Committee members manufacture most of the steel wire rope produced in the United States.

On behalf of the Committee, I am here to describe the above impact of surging wire rope imports on our industry. Further, I am here to ask that you include steel wire rope as a specific industry or product group in H.R. 5081, The Fair Trade in Steel Act. Such an inclusion is vitally necessary.

II. THE DOMESTIC STEEL WIRE ROPE INDUSTRY

Steel wire rope is a complex machine to transmit force. Wire rope is made using high carbon steel rod as a raw material. The rod is drawn into wire. Wires are helically laid around a center in a variety of configurations to make a strand. These strands, usually six, are then helically laid around a core to make the wire rope. The wire rope is designed with engineering precision and made to machine tolerances to meet the demands of use on earth moving and materials handling equipment such as clamshells, bulldozers, mining machines, hoists, and conveyors. It is also used in high risk lifting devices such as cranes and elevators. It is important to energy production since it is an essential component in oil well drilling and servicing rigs. Wire rope is also used as aircraft control cable and arresting rope on aircraft carriers. Hence, wire rope is essential to basic U.S. production efforts as well as our national security.

The individual Committee members vary in size and corporate structure: some are engaged exclusively in the manufacture of steel wire rope, while others are divisions of integrated steel producers or larger holding companies. In any case, because of the product's nature, the manufacture of steel wire rope occurs in a discrete industry, distinct from all other steel products.

The domestic industry has manufacturing plants and distribution centers throughout the United States including port-proximate warehousing facilities. The domestic industry has not conceded any geographic or product market to foreign sourced wire rope. See Exhibit One

In a recent investigation of our industry by the International Trade Commission under U.S. antidumping laws, the ITC found the industry to be extremely competitive:

"Plants visited by the Commission's staff were modern, clean, and well organized facilities. Recently installed, state-of-the-art machinery was observed in the plants. The Committee of Wire Rope Producers works on technical improvements in the product and improved standardization, and on finding new uses for wire rope, thereby expanding the market for the industry." [1]

Capital outlays during 1979 through third quarter 1982 exceeded $80.8 million. However, the domestic industry has been forced to terminate or reduce investments during the period 1982 to 1983 and into 1984 due to the impact of wire rope imports principally originating in Korea. The next five years are critical to the development of this industry. Relief is therefore essential.

III. IMPORTS HAVE SERIOUSLY INJURED THE DOMESTIC STEEL WIRE ROPE INDUSTRY

On July 9, 1984, the International Trade Commission found that the wire rope industry was seriously injured in the context of their affirmative injury determination respecting the wire and wire products category in the matter of Carbon and Certain Alloy Steel Products, Inv. No. TA-201-51.[2]

The Commission's injury determination was well justified. After increasing from 1975-1981, domestic shipments of wire rope decreased dramatically during 1982 and 1983. See Exhibit Two. This decrease occurred despite a plunge in real wire rope prices. See Exhibit Three. Unsurprisingly, the industry, which had been experiencing reasonable profitability in the 1975-1981 period (operating profits averaged 7.4% of net sales), became unprofitable in the 1982-1983 period. Indeed, in 1983, the industry experienced losses amounting to 16.1 percent of net sales. See Exhibit Four. Similarly, employment increased by 8.4 percent from 1975-1981, but experienced a dramatic 37 percent reduction in the 1982-1983 period. See Exhibit Five. Employment declines are particularly indicative of serious injury because of the capital intensive nature of the wire rope industry. The cause of this injury is rapidly increasing wire rope imports, particularly from Korea. The import share of the domestic market rose from just under 18 percent in 1976 to over 33 percent in 1982. See Exhibits Two and Six. Accordingly, the wire rope industry stands in need of effective relief from wire rope imports.

IV. QUANTITATIVE RESTRICTIONS MUST BE ESTABLISHED FOR WIRE ROPE IMPORTS

Unfortunately, the ITC has recommended inadequate relief to remedy the injury it found present. On July 11, 1984, the Commission recommended a 12 percent tariff ad valorem increase on wire products for the next three years and a 10 percent ad valorem for the subsequent two years. While the ITC's recommendation would have some effect, it is insufficient to remedy the extreme damage being done by foreign imports of steel wire rope. The Commission has verified that imports from Korea often undersell the domestic industry by 50 percent. Accordingly, a 12 percent ad valorem increase in duty would have a minimal effect on wire rope sales given the large margin of underselling. The United States is a target market for Korea. Korean producers will lower their sales prices to compensate for the increased duty. Quantitative restrictions are a remedy not so easily circumvented.

Quotas are also a more equitable form of relief. For example, increased tariffs penalize reasonably priced wire rope imports from Canada while not canceling the effects of the injurious pricing practices associated with imports from Korea. As noted by the Canadians, "[a]t times Korean [wire rope] prices were less than the Canadian producers' cost of production." [3] Accordingly, increased tariffs magnify the imbalance between Korea and other importing industries.

Effective relief would consist of import restrictions set at 24 percent of apparent domestic consumption of wire rope (TSUS Items 642.12, 642.14, 642.16) for a five-year period. This represents the average import penetration level during the base period use in the ITC investigation (1975-1981), the period immediately preceding the serious injury caused by imports. See Exhibit Seven.

With adequate relief the domestic industry can: (1) expand into different wire rope product areas which require new or upgraded equipment; (2) allocate more manpower and resources to research and development in order to produce proprietary products; (3) institute carefully planned programs to further improve efficiency and increase productivity.

The wire rope industry has tried to obtain relief under the trade statutes. The industry brought a dumping case against Korea, but because of upstream subsidization and Commerce's refusal to investigate Korean cost of production, no relief was recommended. The dumping case is presently being litigated. The industry also brought an unfair trade practice case (§ 301) before the United States Trade Representative. However, the USTR refused to enter into formal consultations with the Koreans because of the, as yet, unsuccessful dumping case. Finally, the industry sought escape clause relief (§ 201). The ITC folded the industry's independent petition into the larger steel case. Nevertheless, as I have indicated, the Commission did recognize the serious injury to the domestic wire rope industry caused by imports. However, the Commission then recommended inadequate relief. Accordingly, we now come before Congress asking for effective action.

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[1] "Steel Wire Rope from the Republic of Korea," Inv. No. 731-TA-112, USITC Pub. No. 1314 (Preliminary) (Nov. 1982) at A-10.

[2] This finding followed a recent Commission determination of likelihood of material injury to the domestic steel wire rope industry. Ibid.

[3] Prehearing Brief of the Canadian Steel Industries Committee for the Determination of Remedy (June 15, 1984) at 45.

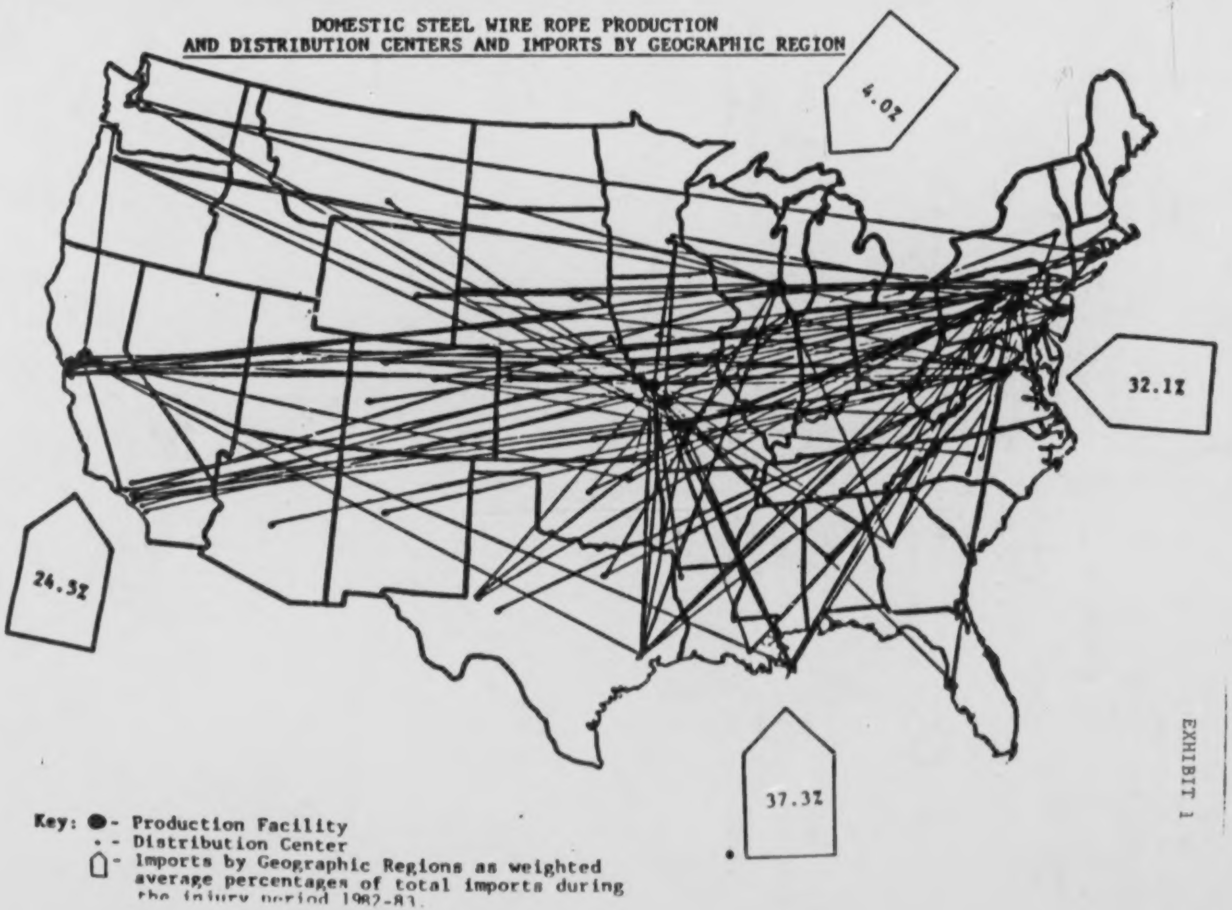
Specifically, we ask that the Fair Trade in Steel Act of 1984 be amended to include galvanized, ungalvanized, and stainless steel wire rope (TSUS Item Nos. 642.1200; 642.1400; 642.1610; 642.1650). Further, we ask that quotas be set for imports at 24 percent of apparent domestic consumption in 1983. Exhibit Eight provides the specific language to amend the bill to accomplish this purpose.

CONCLUSION

In order to remedy present serious injury and prevent further injury to the domestic industry caused by imported steel wire rope, it is esential that the Congress provide relief responsive to the needs of the industry. Quantitative restrictions amounting to 24 percent of apparent domestic consumption is the only relief that would effectively and equitably address the problems caused by imported wire rope.

EXHIBIT 1

DOMESTIC STEEL WIRE ROPE PRODUCTION AND DISTRIBUTION CENTERS AND IMPORTS BY GEOGRAPHIC REGION



Key: ● - Production Facility
• - Distribution Center
⌂ - Imports by Geographic Regions as weighted average percentages of total imports during the injury period 1982-83.

EXHIBIT 2

STEEL WIRE ROPE: DOMESTIC SHIPMENTS, IMPORTS, EXPORTS, AND APPARENT DOMESTIC CONSUMPTION, 1975-1983

	Domestic Shipments	Total Imports	Total Exports 1/	Apparent Domestic Consumption	Ratio of Imports to Apparent Domestic Consumption	Ratio of Imports to Domestic Shipments
	(---------------------In short		tons---------------------	)	(In percent)	(In percent)
1975	215,110	52,289	2,571	264,828	19.7	24.3
1976	184,269	39,353	2,462	221,160	17.8	21.4
1977	188,721	53,022	1,821	239,922	22.1	28.1
1978	196,768	59,806	2,390	254,184	23.5	30.4
1979	204,236	76,248	2,556	277,928	27.4	37.3
1980	205,590	64,853	3,427	267,016	24.3	31.5
1981	220,050	90,848	1,973	308,925	29.4	41.3
1982	157,700	77,005	1,596	233,109	33.0	48.8
1983	136,405	58,850	1,535	193,720	30.4	43.1
1Q 1983	31,699	14,271	355	45,615	31.3	45.0
1Q 1984	37,561	18,549	434	55,676	33.3	49.4

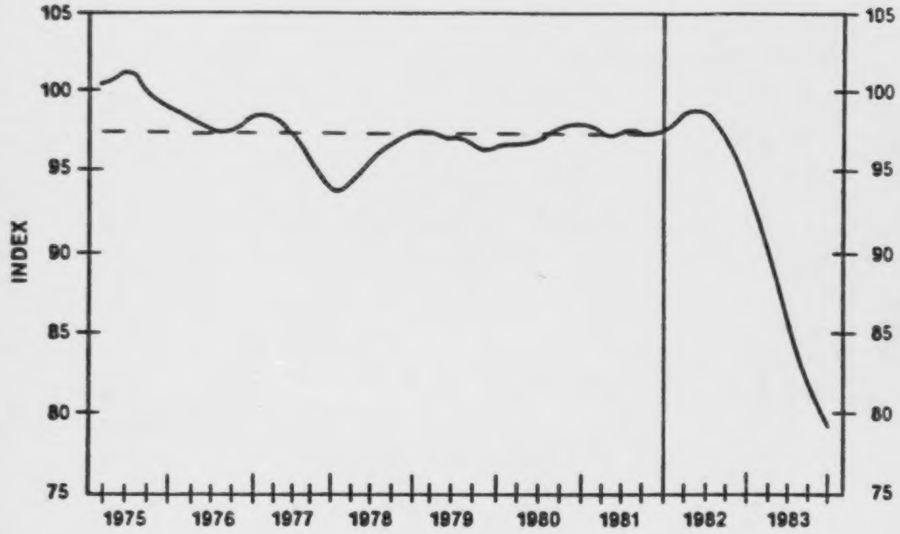
1/ Actual export figures are not available for 1975. This figure was estimated based on the average ratio of exports to domestic shipments for the period 1976-1982.

Source: Domestic shipments and Exports - AISI; Imports - compiled from official statistics of the Department of Commerce.

EXHIBIT 3

REAL DOMESTIC PRICES

OF WIRE ROPE, 1975-1983



NOTE: Values smoothed using four-quarter moving average.
Average value for 1975-1981 is 97.1

SOURCE: Survey of domestic producers.

EXHIBIT 4

STEEL WIRE ROPE: OPERATING PROFIT (LOSS) AND NET PROFIT (LOSS) AS A PERCENT OF NET SALES 1975-1983

Year	Operating Profit as a Percent of Net Sales	Net Profit as a Percent of Net Sales
1975	11.9	10.8
1976	9.1	7.4
1977	1.7	(2.9)
1978	8.3	6.3
1979	4.0	1.8
1980	7.2	4.9
1981	9.1	7.1
1982	(3.8)	(7.1)
1983	(12.5)	(16.1)

Source: Confidential surveys compiled by Economic Consulting Services, Inc. Six firms responding. For one of these firms, fiscal year ends on April 30; for the rest of the firms, the fiscal year ends on December 31. In addition, one firm's 1983 figures were estimated by Economic Consulting Services, Inc. based on data for nine months of the year.

EXHIBIT 5

STEEL WIRE ROPE: AVERAGE NUMBER OF EMPLOYEES IN THE REPORTING ESTABLISHMENTS -- ALL PERSONS AND PRODUCTION AND RELATED WORKERS PRODUCING ALL PRODUCTS AND PRODUCING STEEL WIRE ROPE, 1975-1983

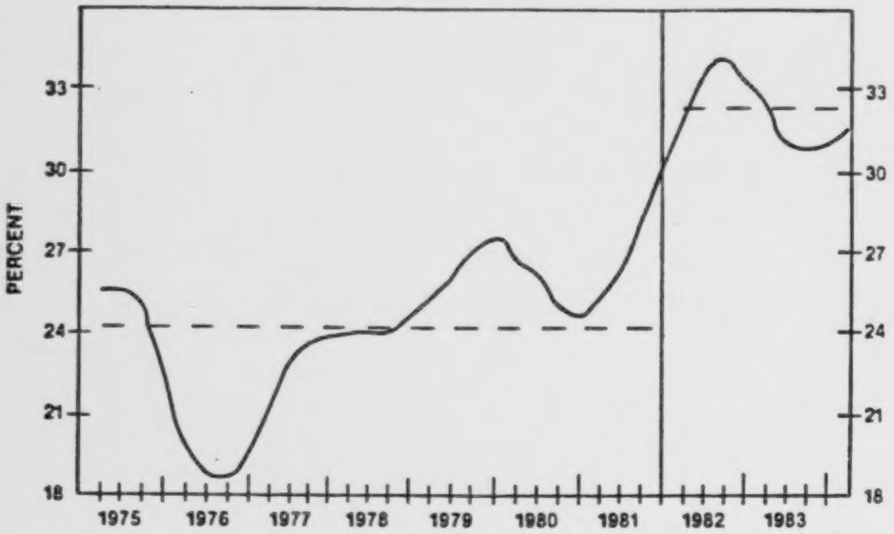
(in number of employees)

	All Persons	Production and Related Workers Producing All Products	Production and Related Workers Producing Steel Wire Rope
1975	2,768	2,565	2,069
1976	2,606	2,324	1,847
1977	2,791	2,584	2,069
1978	2,806	2,516	1,941
1979	2,852	2,556	2,167
1980	2,869	2,585	2,229
1981	2,835	2,659	2,243
1982	2,433	2,045	1,755
1983	2,114	1,745	1,416

Source: Confidential surveys compiled by Economic Consulting Services Inc. Six firms responding for all persons employed. Seven firms responding for production and related workers.

EXHIBIT 5

IMPORT SHARE OF APPARENT CONSUMPTION OF WIRE ROPE, 1975-1983



NOTE: Values smoothed using four-quarter moving average. Average value for 1975-1981 is 24.7%; average value for 1982-1983 is 32.3%.

SOURCE: American Iron and Steel Institute and Department of Commerce.

EXHIBIT 7

THE REPRESENTATIVE PERIOD FROM WHICH QUOTA RELIEF IS BASED

	Domestic Shipments	Total Imports	Apparent Domestic Consumption	Ratio of Imports to Apparent Domestic Consumption
	(------------in short	tons	-----------)	(in percent)
1975	212,539	52,289	264,828	19.7
1976	181,807	39,353	221,160	17.8
1977	186,900	53,022	239,922	22.1
1978	194,378	59,806	254,184	23.5
1979	201,680	76,248	277,928	27.4
1980	202,163	64,853	267,016	24.3
1981	218,077	90,848	308,925	29.4
Seven Year Average	199,649	62,346	261,995	23.8

Source: Domestic Shipments - AISI, net of exports; Imports - Department of Commerce Statistics.

EXHIBIT 8

The Fair Trade in Steel Act of 1984 (H.R. 5081) is amended:

(1) by inserting on page 9, after line 18 "(JJ) 642.1200, 642.1610, 642.1650 (galvanized and ungalvanized steel wire rope)."

(2) by inserting on page 10, after line 11 "(I) 642.1400 (stainless steel wire rope)."

(3) by inserting on page 11 "Steel wire rope . . . 24" on the line following "Electric sheet and strip . . . 4.3".

(4) by inserting on page 11 "Stainless steel wire rope. . . 24", on the line following, "Stainless round wire greater than 0.060-inch diameter (provided for in section 3(4)(II)(G)) . . . 7.1".

(5) by inserting on page 19, line 18, "42 and 44 through" immediately after, "ries 37 through."

Chairman GIBBONS. All right, Continental Steel.

STATEMENT OF WILLIAM C. SCHWARTZ, EXECUTIVE VICE PRESIDENT, CONTINENTAL STEEL CORP., ON BEHALF OF T.I. SIGLER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ACCOMPANIED BY MATTHEW E. CHINSKI, VICE PRESIDENT AND CONTROLLER

Mr. SCHWARTZ. Good morning, Mr. Chairman, members of the committee.

I am William Schwartz, executive vice president. With me this morning is Matthew Chinski, our vice president and controller.

Continental Steel Corp. manufactures carbon steel wire rod and wire products in its facilities located in Kokomo, IN. Our president and chief executive officer, Mr. Thomas Sigler, is unable to appear personally, due to an emergency business matter requiring his direct involvement.

Mr. Sigler expresses his utmost apology and regret for not being able to personally present this testimony on behalf of Continental Steel.

Our company emerged from reorganization under chapter 11 of the Bankruptcy Code in March 1982. The new company that resulted from this restructuring is devoted to the manufacture and sale of steel products to the Midwest market.

As part of our reorganization, those factors that led to our inability to remain competitive were specifically addressed.

For example, our entire work force was restructured and plant facilities upgraded to greatly increase our manufacturing cost-efficiency. In 1983, the company negotiated new multiyear labor agreements with the United Steelworkers of America, which provided immediate wage and benefit cost reductions in excess of 25 percent.

Our salary work force was trimmed from 500 to 315, with salary and benefit cost reductions instituted for current salaried employees.

Also, product yield improvement and other efficiency programs resulted in significant cost reductions. While certain capital expenditures for additional modernization have had to be delayed because of suppressed prices in the market, we anticipate future investments to further upgrade our facilities.

We are optimistic about our ability to operate as an efficient steelmaker, but our optimism has come at a great cost and is tempered by serious concerns over unfairly traded imports and widely fluctuating trade policies.

Indeed, we most firmly believe that our future depends on a consistently applied, long-term Government trade policy. We further contend that this trade policy must fully recognize and effectively compensate for the massive amounts of government financial support for steel production in foreign countries.

Our experience in bringing countervailing duty actions against foreign imports has only affirmed our contention that subsidization of foreign steel production is the rule, not the exception.

We simply cannot be expected to compete with imports when many of the costs, particularly the costs of obtaining capital, are provided by the government of the foreign producer at no cost, or substantially below market cost.

Absent consistent trade policies which effectively address this omnipresent foreign subsidization, companies such as Continental lack the assurance needed to rebuild on the assumption that dedicated management, committed employees, and responsible financing will lead to competitive and successful operations.

Following its reorganization, Continental Steel invested $3 million in a new galvanized wire operation, and shortly thereafter, despite the devastating steel industry depression, began a $19 million modernization of its rod mill, which became operational in April 1984.

Furthermore, construction has now begun on a $21 million continuous caster at our Kokomo facility. The projects were financed primarily from private sources, and capital was borrowed at greater than prime rates.

The expenditures upgraded facilities located in Kokomo, IN, a location where ocean and inland freight might be expected to put foreign imports at a disadvantage.

All of these improvements were made on the assumption that the high cost of investment in new facilities, both for equipment and technology, and the cost of capital, could be recovered through our domestic prices if the market was functioning properly and the U.S. trade laws were vigorously enforced.

This assumption, however, has not been realized. Since the second suspension of the trigger price mechanism in 1982, we have been forced to resort to trade law petitions to combat unfairly traded imports.

While we have been largely successful in winning cases, we have found them time consuming and expensive. Because wire rod is manufactured in many countries, it is necessary to bring numerous complaints in order to achieve any measure of relief.

Further, despite all of our efforts, imports continue to take a significant share of the domestic market at highly depressed prices.

For example, in January 1984 wire rod imports were over 150,000 tons, the highest level of any month since 1974.

These imports have proved to have a devastating impact on our company. Because we require high levels of capacity utilization to achieve an adequate return, any erosion of our market share puts a tremendous strain on the operation of our facilities.

For instance, our capacity utilization of wire rod facilities fell from 92 percent in 1979 to less than 67 percent in 1983. At the same time the market share of foreign producers on rods rose from 20 percent to nearly 30 percent.

Similarly, our capacity utilization for nails fell from 74 percent in 1979 to a low of 48 percent in 1983, a year in which the foreign market share on nails climbed to over 70 percent.

This decreased capacity utilization, coupled with severely depressed prices, has led to substantial losses. While the company's second quarter operating results are not published, we experienced a first quarter operating loss of just under $4 million.

Continental Steel believes that imported rods and wire products sold below cost are the primary reasons for these losses. As a small domestic steel producer, Continental needs two things from the Federal Government to help fight for survival and success.

First, Continental Steel needs effective relief from the dumping of subsidized steel into its markets, relief that case-by-case legal actions and short-term policies that do not adequately recognize the tremendous and unique degree to which foreign steel production receives Government support cannot provide.

Second, Continental Steel needs time. It needs breathing room to complete its modernization programs and become cost and quality competitive in the world market.

Continental Steel has done its part to become competitive in the steel industry. The recent action of the International Trade Commission in remedy recommendations to the President as a result of the 201 filing by Bethlehem Steel Corp. and the United Steelworkers of America totally ignored the wire rod industry, and were inadequate regarding wire and wire products.

The company urges the U.S. Congress to do its part by enacting legislation establishing steel quotas. In closing, Continental Steel is one of the minimills mentioned by previous witnesses and in comments by the committee.

The need for quotas is not an integrated steel mill problem only. U.S. rod producers, including Continental Steel, have state-of-the-art processes.

Yet, we have fair trade problems. Many rod producers domestically have won nearly every countervailing and antidumping action filed in the last 3 years.

In each case, the ITC found injury, because of dumping and foreign steel subsidization. For example, in Argentina, the margin was as high as 176 percent.

What has occurred on the west coast from the steel supply standpoint will likely happen in the Midwest, unless the subsidized steel issue is addressed.

Mr. Calhoun's client's position is the same ultimate thing that could happen to any customer of Continental Steel's if unfairly traded imports drive Continental Steel and other Midwest rod producers out of the steel business.

Last, Continental Steel rod capacity, as I mentioned earlier, in 1983 averaged 67 percent, and needless to say we have plenty of rods for sale, and we will be competitive with any free fair trade rod producer in the world.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF T.I. SIGLER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CONTINENTAL STEEL CORP.

GOVERNMENT POLICY TOWARD IMPORTED STEEL

Summary

In March 1982, Continental Steel Corporation emerged from reorganization under Chapter 11 of the Federal Bankruptcy Code. During the reorganization, the company's business and management changed significantly as business segments (including cement and other building industry products) were sold and a new board of directors was constituted. As a consequence of the reorganization, the company beginning in March 1982 had many attributes of a new entity and was prepared, with a resolved balance sheet, to pursue primarily the manfacture of carbon steel wire rod and wire products. Although losses have been incurred since March 1982, the company has been able to survive and anticipates that—because of the painful restructuring that it has undergone—it will be able to compete efficiently and productively in its markets.

Imports of carbon steel rod and wire products have played a role in this restructuring in essentially two ways. First, imports were a factor in the company's financial difficulties prior to 1982, they impacted very unfavorably on the restructuring process, and since 1982, the depressed price of imports, combined with an increasing market share, have precluded attainment of profitable operations. This point is dramatized by the fact that the price of a principal Continental product, wire rod, continued to decline during 1983 when it reached the ruinously depressed level of 1977. In unadjusted dollars, 1977 and 1983 wire rod prices were 40% *below* the prevailing prices in 1974! A number of trade cases have moderated these effects but have hardly been a cure.

The second import perspective is an explanation of the first: in case after case the domestic wire rod industry has demonstrated that foreign governments have subsidized producers exporting wire rod to the United States and in many instances those same producers have also sold their product at less than fair value prices in this market. This foreign government intervention has probably forestalled the bankruptcy of inefficient foreign producers that Continental has so painfully experienced here. Rather than permit producers to go bankrupt, rather than permit loss of employment, subsidization has been the offshore alternative.

Continental is convinced that the future survival of privately and publicly held steel companies in the United States depends on a consistently applied government trade policy that gives primary consideration to the competitive—and comparative—imbalance that results from foreign government industrial intervention and that has such dramatic impact in the freely accessible United States market. The existence of such policies would, Continental is convinced, permit companies such as Continental to restructure with the reasonable assurance that dedicated management, comitted employees and responsible financing will lead to competitive and successful operations. Absent such policies, however, Continental fears that even painful restructurings will in the end be insufficient to ensure the survival of a competitive privately and publicly held steel industry that generates capital sufficient to ensure shareholder loyalty and to continue investment in state of the art technology.

A. The restructuring program

When Penn-Dixie Industries and Penn-Dixie Steel Corporation filed a petition for reorganization pursuant to Chapter 11 on April 7, 1980, the prospects for recovery seemed bleak. In the following year, however, a plan of reorganization was evolved which was submitted to the creditors for approval in October 1981. After amendment, this plan was approved by the court on March 11, 1982, and was accepted by the creditors and others entitled to vote three days later. The final plan called for a substantial restructuring of the company's operations, the sale of many lines of business that had not previously proved profitable, and a nearly complete change in the directors of the company. The "new" company was primarily devoted to the manufacture and sale of steel products. Management and the directors of the company were convinced that, with a cooperative work force, the newly named Continental Steel Corporation could effectively compete in the midwestern market in which it is located.

Continental's principal operations are in Kokomo, Indiana, where there is access to the substantial midwestern market for wire rod and wire products. Because of this inland location, imports are at a substantial ocean and inland freight disadvantage which would normally be expected to give Continental an opportunity to price its products competitively to its principal customers in the region. That expectation, however, has been frustrated by imports that in case after case have been shown to be subsidized and dumped and which have retarded the company's ability to achieve profitable operations.

As a capital intensive manfacturer, Continental requires high levels of capacity utilization to achieve adequate return. Over the past several years, however, imported wire rod, wire and wire products have significantly reduced volume available to domestic producers such as Continental.

The following figures comparing capacity utilization at Continental Steel for 1979 and 1983 tell the story:

[In percent]

	Capacity utilization		Foreign producers' share of market	
	1979	1983	1979	1983
Wire rod	92	67	20	29
Wire	96	66	19	31
Nails	74	48	60	70

Decreased capacity utilization makes profitable operation extremely difficult; the price Continental is able to get for what it does sell makes it nearly impossible. In fact, it is on price that imports are able to damage Continental. The company believes that it offers superior quality, delivery and service, but is have been repeatedly underbid by imported steel products.

The competitive facts of life have changed in the steel business. In recognition of this, Continental has systematically addressed the factors which have kept it uncompetitive.

All employees have made an investment in Continental Steel in the form of substantial cuts in wages, salaries and benefits in 1980, 1982 and 1983. Reductions in hourly wages and benefits alone amount to over $1 million per month. The salaried work force has been trimmed from 500 to 315 in the past 5 years. The company in cooperation with the United Steelworkers of America, have restructured its work force to improve its manufacturing cost efficiency.

Continental Steel and the United Steelworkers of America created a joint labor-management participation program to solve shop floor problems which impede efficiency. The two parties have negotiated changes in work rules to allow more efficient operations. Continental instituted scrap reclamation and secondary usage programs which have increased yield by over $1 million annually. And like many businesses, it has reduced costs through inventory control, purchasing decisions and cash management.

With these efforts Continental Steel was able to reduce 1982 losses of $18 million on $100 million in sales to $10 million on sales of $111 million in 1983. Through the first five months of 1984, however, losses totalled just under $8 million primarily due to import-induced depressed prices and the painful effect of starting up the modernized rod mill.

In spite of these losses, Continental Steel, its employees and its lenders are committed to the steel business and the future. While in Chapter 11 bankruptcy, it invested $3 million in a new galvanized wire operation. During the worst steel industry depression since the 1930s Continental began construction on an $19 million rod mill modernization, financed entirely from private sector sources, which started operation in April 1984. The company has begun construction on a $21 million continuous billet caster, financed largely from private sources.

Continental Steel has been able to acquire financing because of the determination of its management and employees. But because of imported rod and wire products, and the depressed prices which they cause, the business is regarded as a high risk, and Continental currently pays a premium, about 3.25 percent over prime, for capital.

These investments demonstrate Continental's commitment to become a competitive steel producer, able to meet all producers, worldwide in fair competition. But, while certain other investments have been delayed because of market conditions, the management of the company anticipates increased efficiency and competitiveness and is optimistic for the future.

That optimism is, however, cautious. No matter how productive the work force, no matter how efficient the plan and equipment, no matter how dedicated the management, success will be elusive if the marketplace does not function. And function it will not if prices bear no relation to supply and demand nor reward the most efficient and productive.

If the subsidized imports did not distort the marketplace, government inaction would be appropriate. It is, government policy to permit free access to these markets. Given foreign government industrial intervention that influences the price and quantity of imports that flow here, the U.S. government must adopt policies that preserve the ability of privately capitalized domestic companies to compete in an import influenced marketplace.

B. Federal trade policy: an oxymoron?

When Penn-Dixie filed its bankruptcy petition in April 1980, the steel operations of the company were only beginning to benefit from the impact of the first Trigger Price Mechanism, which became effective as to wire rod in May 1978. The benefit was uneven, as wire products, which the company then and now produces, were never covered under the TPM and it appeared likely that because of this limited scope, the TPM would have an adverse affect on downstream producers. Of course, any benefits were transitory as the first TPM was suspended in late March of 1980 in response (retaliation?) to trade actions filed by a major steel company. The result, predictably, was price erosion with consequent adverse financial effects on the company.

Later that summer, the TPM was reinstated by President Carter after the suspension became an election issue. The second TPM was suspended in early 1982 (just prior to approval of the plan of reorganization) after the filing of new cases by the large steel companies. While the second TPM was encrusted with legalisms (primarily preclearances that resulted in intolerable "two-tier" import pricing), it did stabilize prices somewhat, a benefit that soon disappeared following suspension. Since then, the Administration's policy has been to "enforce" the trade laws with the exception of the European Arrangements which themselves led to a flood of imports from the Third World while imports from Europe were restrained.

The last four years, then, have seen a variety of federal trade policies pursued, abandoned, occasionally resuscitated and above all everchanging. Nor is this a new phenomena. In the late 1960s, there were voluntary restraint arrangements, that were later followed by price controls, which in turn were followed by a policy of inattention which led to the incredibly dramatic erosion of prices that occurred in 1977 just prior to the formulation of the first TPM. It is no coincidence that Continental Steel incurred its first operating loss in 1977 after more than fifty consecutive years of profitability.

From the standpoint of a steel company that has been forced to restructure during recent years, it can be said with certainty that one of the major problems has been the lack of consistent and long-term federal policy toward steel imports. In the last decade, the government has experimented with practically every trade policy imaginable, from free trade to fair trade to protected trade to inaction. These gyrations have made planning extraordinarily difficult and demonstrate to Continental, at least, the need for a consistent long-term policy that will enable planning and investment to proceed on a more predictable basis.

The average life of steel assets is 15 to 18 years. The cost of technology improvements is high, running into many millions of dollars for even the most rudimentary equipment necessary to efficient operation such as a continuous caster. The return on these investments is slow. It is in this context that the government must consciously and carefully develop a policy for the steel industry as it relates to the import of comparable products from all over the world, that will permit realistic management with productive employment, to anticipate and plan over a long range. Erratic short-term policies that promise immediate salvation are almost as bad, if not worse, than no policy at all.

Continental, therefore, urges that the government formulate a long-term policy for steel and adopt the commitment to stay with that policy for the period necessary to develop an efficient industry in this country. Continental, in addition, urges the government to take into account in formulating policy the exception circumstances of the United States economy in which bankruptcies are permitted and domestic producers must confront free access to the market by imports produced in countries where bankruptcies often are not tolerated. That access to this market, if based solely on competitive ability or comparative advantage, should be tolerated and could be met by vigorously competitive domestic producers. But as the plethora of cases that have been brought and litigated before this government have demonstrated, foreign industrial intervention is close to being the rule—not the exception. The fact of that intervention must guide the evolution of U.S. policy.

Continental Steel believes that imported rods, sold below cost, are the primary reason that it continues to lose money despite a substantial reduction in manufacturing costs. As a small domestic steel producer, Continental needs two things from the federal government to help its fight for survival and success.

First, Continental Steel needs effective relief from the dumping of subsidized steel into its markets—relief that case-by-case legal actions cannot provide.

Second, Continental Steel needs time. It needs breathing room to complete its modernization programs and become most cost and quality competitive in the world market.

Continental Steel believes HR 5081, if enacted would serve both needs. Continental Steel has done its part to become competitive; the company is asking the United States Congress to do its part.

CONTINENTAL STEEL CORP.; OPINION

The American steel industry weakened by foreign subsidized competition as well as its own inefficiencies and generosity will never again play the prestigous role it once enjoyed in world steel production. Many plants have closed their doors permanently, while others are operating at rates substantially below capacity. Others that have the resources to do so are diversifying away from steel at alarming rates, which in turn reduces further capacity availability.

Steel is not unique with its problems in a global market economy, but it is one more industry, with others yet to come, that will be greatly impacted by both our own shortcomings and foreign competition, with much of the latter being subsidized by the country of its origin.

To remain in business, a company must provide a quality product and a product needed by others; that is, a project which is competitively priced and delivered to a customer at a time and place of his or her choosing.

Competition must be recognized as the word implies: a "striving toward the same objective by like participants." Competition is and has been one of the many primary motivators in our heritage that has made our country the industrial giant it is while benefiting the consumer in quality and price of the products purchased.

Competition, then, forces us to accept the challenges that might otherwise have become complacency but, as in any competitive event, the participants should have equal opportunities to succeed. Subsidized competition, as is being faced by the steel industry in today's market, ultimately eliminates competition, which in turn will result in higher prices and availabilities subject to the whims of foreign producers.

In the short term, the cost to the consumer is reduced. But over the long term the consumer, as well as the employees and shareholders, will lose.

This does not mean the steel industry can ignore its own internal problems of quality, cost and service that would prevent it from being competitive in an absence of subsidized imports—with all participants subject to the same rules.

Competitiveness and its challenges were, are, and must remain a part of our way of life for a healthy country and benefit of the consumer, employees and shareholders.

Labor and management will have a future of competition from the developing countries and must face up to those challenges to be competitive and remain a part of healthy, profitable companies.

In the meantime, subsidized off-shore competition only results in an export of that country's unemployment, and must be prohibited while the steel industry gets its own house in order.

Chairman GIBBONS. Certainly all of you, every bit of American industry, is entitled to adequate remedies, and not expensive remedies, adequate remedies for unfairly traded goods.

When I say unfairly traded goods, I am talking about the goods that violate our domestic laws and the international laws. I regret that you have not received that kind of adequate support from your Government.

I have been trying to improve that. Now, I don't want to get this hearing mixed up with that issue, but in my opinion, there is no reason for any American industry to be disadvantaged because goods are being subsidized or dumped into this country. There are laws to deal with those practices. To the extent that your Government has failed to properly enforce those laws, I would say you are certainly entitled to relief and redress.

I would urge you to contact the Senate. They have a very important bill over there that the House passed by a large majority last week, that will even strengthen those laws and help you out with that repetitious type of problem that you brought up here.

I think our problem from a policymaking point of view is that we have not clearly distinguished between the unfair and illegal types of practices and just fair competitive types of practices.

Do you have questions, Mr. Frenzel?

Mr. **Frenzel**. Yes, I do, Mr. Chairman.

I would like to ask Mr. Schwartz, you indicated you need two forms of relief, one from dumping. And then you need time, too. I was never quite clear why you needed time. Is that for you to repair yourself from the ravages of dumping that has gone unpunished or something?

Mr. **Schwartz**. Yes, that is part of it. But also the time will enable us to install the necessary equipment that is required to be competitive in the world market. And I mentioned that we are in the process of installing a continuous caster.

We awarded the contract in April of this year. Unfortunately, it is a long-term contract. And we are doing it in a very rapid period of time. But it is still 13 to 15 months. And that is the time I referred to.

But also in addition to that, when we come onstream with a continuous caster, we need time to recover all the losses that we have experienced over the last several years that largely have been due to unfair subsidized steel.

Mr. **Frenzel**. Your unfair trade practice files have been unsuccessful?

Mr. **Schwartz**. No. I believe the record would show that we have won, along with four or five other domestic rod producers, every countervailing duty except one in the last 3 years. And what happens after we have won them, we won the one in Argentina, and Argentina quits importing rods into the United States and Venezuela comes up.

And it is just this week we had sold 3,000 tons of rods for delivery over the next 60 days to a customer of ours in Cleveland that later purchased Venezuelan rods at $20 a ton under a price that we had negotiated with him some 60 to 90 days ago.

These are the problems the domestic rod mills have.

Mr. **Frenzel**. What kind of competition do you have from the electric mills?

Mr. **Schwartz**. We are an electric furnace minimill. And we knock heads with them every day of the week.

Mr. **Frenzel**. You can compete with your competitors in that field?

Mr. **Schwartz**. Competitors in the United States? Absolutely.

Mr. **Frenzel**. OK.

Mr. Chairman, I should note, too, one of our witnesses is accompanied by his counsel, who is a former member of this body. We welcome him especially.

Chairman **Gibbons**. We certainly do.

Mr. **Harris**. Mr. Chairman, I wanted to compliment Mr. Frenzel on his selection of ties. We try to be coordinated when we do these things together.

Chairman **Gibbons**. I have on the company tie.

Mr. **Harris**. Mr. Frenzel indicated there were some freebies around, but I dont think this is one.

Chairman **Gibbons**. We are glad to see you here.

Mr. **Sandstrom**. Mr. Chairman, I would like to comment on a point you made—that American industries do have a right to obtain relief from——

Chairman **Gibbons**. Effective relief.

Mr. **Sandstrom**. Effective relief. I don't believe that there is any category in this quota bill that has not had one or more cases trade filed on it, and, in fact, the great majority of those cases have demonstrated the existence of subsidies or dumping.

The problem is that the relief eventually granted has for one reason or another not, in fact, been adequate. That is why companies such as Copperweld, which is generally reluctant to think in terms of quotas, has come to the realization that it really has no other——

Chairman **Gibbons**. That worries me. Of course, that is the thrust of the legislation that I offered to the Congress.

Mr. **Sandstrom**. I would compliment you on what your subcommittee and committee has done to try to remedy——

Chairman **Gibbons**. Say that again a little louder for Mr. Frenzel. And for Mr. Wolff over there, too; I don't think Alan really agrees with me on some of these things.

But I do believe that there is a real need in America to enforce the laws against illegal subsidies—any subsidy that injures us is illegal under our law or unfair. And I have not been happy at all with the enforcement of that law, frankly.

A couple of years ago, instead of enforcing the big steel cases brought against the European producers, the Government went out and just divided up the market between the United States and Europeans. Then this divided-market type operation, of course, blew up because everybody else started coming into the market.

There has not been adequate enforcement and remedy there. I think our Government was wrong to settle those cases. It shouldn't have settled them. It should have slapped on a countervailing duty for the appropriate amount and let it ride, and keep out the subsidized steel.

I don't have any disagreement at all with you all. Our allies around the world that are subsidizing steel ought to be kept out of our markets just as well as anybody else who is subsidizing ought to be kept out.

They have agreed not to subsidize steel, we have agreed not to subsidize steel, and we ought to live up to our agreements. I am going to try to enforce that. I hope you will contact the Senate and urge them to get that bill moving over there.

Mr. **Schnatterly**. Excuse me. One recent example of Government's irresponsibility on this issue is the recent ITC recommendation that has excluded products such as tubing and wire and rod to the point that if any relief is provided on the other products, it will be worse for us than the perpetration of unfair trade in our products, because we are the largest consumers in part for what would be protected and, therefore, squeezed by our domestic sources of raw material and the potential for downstream dumping.

Mr. **Harris**. Mr. Chairman, one technical point. No. 1, wire rope is, in fact, included in the fair trade steel bill before this committee now, only as a first tier product.

It is this committee's plea that if, as included in this bill, that it be a covered product, and not just a first tier product. Also, Mr. Chairman, I would like to correct the previous witness. Wire is, in fact, covered by the ITC decision—wire and wire products, in the injury defining definition, and in the remedy recommendation.

Mr. **SANDSTROM**. We were speaking primarily about pipe and tubing.

Mr. **HARRIS**. You mentioned wire as one of the things. I just wanted to clear the record.

Mr. **SCHWARTZ**. Yes, it is mentioned in the ITC. We feel the remedy is very inadequate.

Mr. **SANDSTROM**. I think that there is one other point to be made today. The bill that is before you deals basically with basic steel mill products. We have had many witnesses come in who depend, as do tubular product manufacturers, on basic mill products for their raw material.

I don't think anybody should be naive enough to think that, in fact, the problem is going to stop there.

Chairman **GIBBONS**. Oh, no, it is going to escalate.

Mr. **SANDSTROM**. If we don't deal with the problem at some level, the same people are going to be back not asking for access to raw material but, in fact, asking for import relief on their products. I would also point out that a company called Chapparal, which is always pointed to as one of the most, if not the most, efficient minimills in the country, has, I understand, just joined United States Steel's case against Korea, because it cannot compete with the unfair pricing of the imports. And I think you will find this will continue to work its way up.

Chairman **GIBBONS**. My strategy is one to create a fair and level playing field. Subsidies are not in the fair and level playing field. Dumped products, those perniciously priced products, are not in the fair and level playing field. And I want to improve the certainty of the remedy, reduce the cost of the remedy.

Those are the basic elements of the bill that we sent to the Senate last week. Hopefully we can get that bill out this year, and hopefully it will do some good.

What worries me is if we start slapping on quotas, the whole situation will have to escalate, because the next user of the raw steel product, or the quota product, is obviously going to be adversely affected, and increased imports downstream will come in.

Then we will have to expand the coverage of the quotas to the downstream product, and the situation will escalate further, and go on and on. To make it real simple, we go from raw steel to nuts and bolts and other finished things, and just keep on going, and we end up in a ridiculous position.

That is the way I see this quota legislation developing. Am I wrong?

Mr. **SANDSTROM**. Well, quotas are never a permanent solution. However, if you want to put pressure on the Senate, you might threaten to pass this bill, until they do adopt strong countervailing duty and antidumping amendments.

Chairman **GIBBONS**. With 219 cosponsors, if they have any sense over there, they know it is going to pass here. I don't think I need to threaten them.

All right. Thank you all very much.

Our next witness is Mr. Alan Wolff, on behalf of the American Iron & Steel Institute.

Alan, we welcome you back to a forum you are very familiar with.

STATEMENT OF ALAN WILLIAM WOLFF, ON BEHALF OF THE AMERICAN IRON & STEEL INSTITUTE, ACCOMPANIED BY THOMAS HOWELL AND LYNN HOLEC, VERNER, LIIPFERT, BERNHARD & McPHERSON

Mr. **Wolff**. Thank you very much, Mr. Chairman. I appreciate the opportunity to testify today and your patience and that of Mr. Frenzel for staying on through lunch to hear the tail end of this program.

With me today are Tom Howell and Lynn Holec, both of Verner, Liipfert, Bernhard & McPherson, who have worked with me on this matter.

It is a pleasure to be back with the subcommittee today with legislators whom I deeply admire and respect.

I have prepared longer written remarks. I will summarize them briefly.

Chairman **Gibbons**. We will put your entire statement in the record as well as—I guess this is an appendix to your statement.

Mr. **Wolff**. Yes, it is.

Some years ago when I was at the U.S. Trade Representatives Office, one of the assistants to the USTR came in and announced his wife had a fifth child. I asked him if they were planning any more children. He said, no, they found out what the cause was.

I am here to talk to you about some of the causes of our dilemma.

I have always been for more expertise in government I applaud the fact very much that these hearings are being held. I want to talk a little bit about some of the causes of the problems that are out there.

This hearing is taking place at a critical time for the U.S. economy with a trade deficit looming of about $120 billion this year, and perhaps approaching as much as $150 billion next year. It is hard not to draw the conclusion that something is dreadfully wrong.

A substantial part of the problem is obviously overvaluation of the dollar which stems largely from our own mismanagement.

Chairman **Gibbons**. You are correct. You are correct. It was so obvious on that last chart he had there. I noticed as the dollar started up, competitive imports started up.

Mr. **Wolff**. Well, you know, I would say that that is probably half our problem across the board, maybe a bit more, maybe a bit less, but around that.

The developing countries debt burden is another part of the problem. Their markets have dried up for us, and we have been expanding rapidly, and that is our demand. Our policies through the Treasury and International Monetary Fund remind me a bit of the treatment of debt after World War I versus the treatment of debt after World War II. What we have done is dry up these foreign markets for our exports, caused an impossible debt burden to try to be serviced in a timeframe that cannot be met, and that is causing us major trade difficulties as well.

Chairman GIBBONS. You know, I don't want to interrupt you, and I don't want to appear political, but we are all congratulating ourselves on the fact that we don't have a very high inflation rate and that we are doing so much better there. It is like saying "My car is not going too fast," and you have your foot all the way down to the floorboard on the accelerator, and you have got your other foot all the way down to the floorboard on the brakes, and that is what we are doing right now with this misconceived fiscal policy that we are carrying on.

We have got both feet down on the floorboard, one on the accelerator and one on the brake. The accelerator is the big fiscal deficit we are running. The brake is a very high interest rate that we are running. For some reason, it makes us feel real good, and we congratulate ourselves about the great economic miracle we have that is going on.

But one of these days either the acclerator is going to give out or the brake is going to give out, and it is going to be a hell of a mess when that happens.

Mr. WOLFF. Well, it strikes me that the whole economy is in trouble if those two problems are not ameliorated to a substantial extent in the near future.

These hearings are on steel. Not surprisingly, a trade deficit of $120 billion is made up out of products, and each product area has a little bit different competitive problem and steel has a set of problems that will not be remedied even if the exchange rate returns to a level that economists would generally recognize as being about right.

The problems of the American steel industry have been exacerbated by the misalignment of the dollar and other currencies, but the problems were present even before the U.S. dollar became overvalued and while Third World debts were still manageable. Total steel mill shipments in the United States have dropped from 109 million tons in 1974 to 68 million tons in 1983 and is a recovery of about another 10 million tons this year, to about 78 million tons in shipments.

Total steel industry employment has declined by about one-half during this last 14-year period, and it is worth asking why this is occurring. A substantial part of the problem would be found in the nature of the international competitive environment. We are in the process of completing a three-volume study of which the Japan section has already been released and Europe and the developing country studies will be released shortly. These studies were prepared for Bethlehem and United States Steel. So prolific are the foreign government programs supporting their steel industries that together these studies are about the size of the Manhattan telephone directory. Japan has created an economic miracle clearly.

Chairman GIBBONS. When you finish that, are those going to be public records?

Mr. WOLFF. Yes; in fact, the Japan study is available, and I could submit that to you for the record.

Chairman GIBBONS. I won't print that because you have already printed it, but I would like to have a copy of it.

Mr. **Wolff**. We will make that available to you.

Japan has done a superb job. It has nationalized its steel industry, prevented the collapse of steel prices through the recessions, through cartelization, provided financial support for this growth, and kept imports to about 1 percent of consumption during the entire period until a couple of years ago. Steel imports are up now about 300 percent in Japan to about 3 percent of Japanese steel consumption. There were stories a couple of years ago of Koreans having to deliver their steel at night in unmarked trucks to get them by the notice of the Japanese major steel producers who would threaten to cut off supply to domestic distributors if they were caught handling foreign steel.

So it is not overt barriers that are the problem in Japan. In 1982, Japan exported 26 million net tons of steel, which is over one-fifth of world steel exports, and the United States has been a major market for Japanese steel.

The European Community has been engaged in an energetic program for the last 10 years to deal with its severely depressed steel industries which are suffering from severe overcapacity. Yet in 1983, European steel production capacity was still 175 million tons, up 7.4 percent over the 1974 level. The surplus capacity of the Community in 1981 was 50 million tons, equivalent to 40 percent of total steel produced in the United States that year.

This surplus capacity has resulted in enormous pressure to export, which in turn has led to European steel being sold in the United States at dumped and subsidized prices. The U.S. Department of Commerce has found dumping margins as high as 41 percent and subsidy margins as high as 21 percent on U.S. imports of European steel. The Community restricts its own imports to about 10 percent of its market.

It is worth just digressing for a moment about continuous casting, which you raised a little bit earlier. I met some years ago with the vice presidents for corporate development of several of the major steel companies, and they are not unaware of what it takes to make steel efficiently. But if you talk to the vice presidents for finance in a steel company, they have got to find money to build these $½ billion to $1 billion plants. That money has to come from equity and a stock issue would not be met with favor by these companies.

Chairman **Gibbons**. They bought that petroleum company, what was the name of it? I just disagree with you. There is capital out there. They just don't want to invest it in steel.

Mr. **Wolff**. Well, steel is a bum investment. It is as simple as that. It is not a good investment. It is not a healthy world environment for investments in steel production.

Chairman **Gibbons**. Maybe they ought to sell the steel industry to somebody. If they can't make any money at it, why don't they just sell it? Why should we have to go on protecting it forever? They still have the highest paid labor in the world—not just in the United States, in the world. Nobody even comes anywhere near them. They still own the finest beach-front property in my area of the world. They still own two golf courses. They still own an oil company.

Mr. Wolff. I certainly wish they would sell the beach-front property.

Chairman Gibbons. I wish they would sell that steel industry to somebody. They just look like hogs to me. I am being real truthful with you.

Mr. Wolff. I understand that.

Chairman Gibbons. They have got the finest law firm in Washington. You can't deny that, one of the most knowledgeable fellows in the whole field.

Mr. Wolff. I would like to turn the attention of the committee, if I could find my place, I have lost the rest of my statement.

Chairman Gibbons. There is something wrong with the steel industry, Al, I agree with you. And to the extent that there are subsidized or dumped products in this country, they ought to be gone. They ought to be gone.

Mr. Wolff. Let me address that, if I might.

Chairman Gibbons. And I don't think it ought to cost an arm and a leg to get rid of them.

Mr. Wolff. Attached to the statement is a list of the steel cases filed since January 1981. These are just the countervailing duty and antidumping cases, and it is 13 pages of cases with about 15 or so cases listed on each page. It is several hundred cases.

In the last few years, well over 200 cases have been filed. Something is going on out there that is a major problem for the U.S. steel industry, and the question is whether U.S. law is adequate? And I would suggest it is not. The antidumping law, as it operates, is very much like saying that you will be mugged but that each mugger only gets to kick you a couple of times.

Chairman Gibbons. It shouldn't be like that. That is one of the things that we tried to change with this last bill, I agree. One mugging is enough, too much.

Mr. Wolff. It is too much, and it has left these companies without an industry in which it makes a great deal of sense or it is even possible to make major new investments, although there has been substantial capital investment in the last few years.

And I think part of any package of remedies, whatever the Congress or the President comes up with, what we are talking about, what do we want out of this? We want a healthy competitive American steel industry, and that will take a major effort on the part of the steel companies, major investment, and that will take the participation of labor in any settlement. Trade is not the sole answer, but trade is part of the answer, and it is what is before this committee today.

I might mention a bit about the developing countries who have ambitiously invested in steel for domestic and foreign demand that unfortunately failed to materialize in quite the amounts that they had anticipated. The industrialized countries competed with each other to offer subsidized credits, official credits of $7.8 billion just in the years 1977 to 1980. There is no figure available for commercial credits that I know of, but we identify at least $4 billion of our bank loans that are outstanding for steel mill construction during that period. And the World Bank and the multilateral institutions added their own billions during the 1970's.

The foreign steel producers, other than Japan, EC, and Canada, in 1983, exported 6.3 million tons of steel to the United States, up 57 percent over the prior year. Brazil doubled its shipments in 1 year, up to 1.2 million tons in 1983, and 80 percent of that steel was the subject of unfair trade complaints.

It took 15 months from the date a petition was filed to the publication of an antidumping order in a case on Brazilian wire rod. The dumping margins found were in the range of 50 to 75 percent, the eventual collections were minimal, given devaluations and other adjustments. If you try to ship steel into a developing country, which is not something the United States might do in any great quantity, but it is what other developing countries might try to do, you find that you can't ship into a developing country steel products that would compete with products produced domestically.

Basically, in steel, we are subject to "beggar thy neighbor" policies. Import protection leads to a high capacity utilization rate, which lowers costs abroad, which leads to a higher U.S. market share. So even if you enforce these laws to the utmost, and I think the Commerce Department is doing its level best, I don't fault them.

Chairman GIBBONS. They compromise every one of the big ones. They should have told the Europeans 2 years ago, "We are not going to take your subsidized steel unless it is countervailed, unless you pay the penalty. You Europeans agreed in the General Agreement on Tariffs and Trade, and you agreed in the Subsidies Code that you helped negotiate, you and Mr. Rivers, that you wouldn't subsidize, and yet you are subsidizing."

Yet we went out and settled the thing, you know, put on this crazy quota arrangement, having a market-dividing operation. I insisted then that they enforce the law, and they chose to settle it. And I think they made a terrible mistake.

Mr. WOLFF. Full enforcement of the law would still not yield a reasonable result with respect to the kind of practices that are involved.

I might say your targeting provisions, and we did not agree fully in approach, but your targeting provisions would have gone a long way toward assisting in dealing with the problem. But the fact of the matter is, if you have a foreign, closed market, let's say, take the Korean market, virtually no steel imports for competitive product, you can operate it at 90 percent capacity utilization and be highly efficient.

If our mills were 90 percent of capacity utilization, our costs would be one heck of a lot lower, and it is not considered part of dumping of subsidization at this point to have a closed foreign market, but that is part of the competitive situation.

Chairman GIBBONS. Well, I would welcome your helping me with that targeting situation, because obviously targeting is a serious part of it. Frankly, the reason I had to pull targeting out of that bill we just passed was the AFL-CIO's objections to targeting. I had the Japanese, the AFL-CIO, and the administration all opposing what I was trying to do on targeting. And, you know, with that kind of coalition, you step back. I couldn't get the bill even scheduled with that kind of a coalition opposing it, much less voted on or successfully passed.

Mr. WOLFF. Well, I hate to say anything against the generation of further legal business, but a litigative approach in these cases are just wonderful, I must say, for the legal profession, but to rely on a litigative approach case after case is not going to be a solution.

Chairman GIBBONS. I agree with that, but once you win a case and once everybody knows what the law is and once everybody knows you won't put up with that kind of foolishness, then it begins to cease. If we just put a notice up that no more dumped or subsidized steel is coming into this country, then it wouldn't come in. It wouldn't come in.

You shouldn't have to prove it on every case. You just grab it at the dock and slap the countervailing duty on it, and that is it. I don't want to litigate on a case-by-case basis. But the trouble is our Government wants to compromise everything out, as I have seen it. That may be an overgeneralization, but that is what I have seen. They want to compromise it all out for some nefarious reason that I have never fully understood.

Now, I know that you want more negotiation on that, but we have negotiated for years with these people about subsidies. You know the Subsidies Code better than I do. You know the GATT, and you know that they are not supposed to subsidize into our market.

And I don't know why we can't enforce that. I just don't know why we can't enforce it.

Mr. WOLFF. I would say that the Commerce Department is, that there are negotiated settlements.

Chairman GIBBONS. Well, they have licensed subsidized steel to come in through the quota arrangement with the EC. That is subsidized steel.

Mr. WOLFF. Well, obviously there were political problems.

Chairman GIBBONS. Yes; it is always political problems. But all these problems are political, and I don't know why we can't tell the Europeans and the Koreans and the Japanese and everybody else who has two ears, "You are not going to send one pound, much less a ton, of subsidized steel into this country," period. I don't know why we can't do it. They have all agreed not to do it. Why can't we do it, Alan?

Mr. WOLFF. Well, I would say you are going to see further, I would guess, that there will be further negotiations as a result of the current——

Chairman GIBBONS. I don't want any more negotiations. I just want the law enforced. I want it enforced fairly, without fear or favor, and I don't know why we can't do it. It has never been explained to me why our Government can't do that. We shouldn't have to put the private litigants to repetitious costs to do the same thing over and over and over again.

Mr. WOLFF. Well, I had proposed a flat per-ton legal fee that would be assessed at the border, but that was never adopted by anyone.

You raise serious concerns, I understand that, with the Community. There was a major trade problem to be managed. Quantitative restrictions are a lot more enforceable by Customs.

Chairman GIBBONS. It just disguises who carries the cost is all it does. It passes it all out to the consumer. We here in the Government love to pass things onto the consumer because we think that it doesn't show up in the tax system or it doesn't show up in something else. But the cost is there, and the trouble with passing it on, as we have done, is that we destabilize other competitive industries in the United States.

The only thing we have helped is the paperwork industry in this country.

Mr. WOLFF. But seriously, there are additional costs from countervailing and antidumping duties. We consider those as trying to reach a fair price, a fair value under the law. Those pass additional costs onto our fabricators to be sure, and it puts them at a competitive disadvantage, to be sure.

Chairman GIBBONS. It puts them out of business. It did on the West Coast.

Mr. WOLFF. But you have to decide where you are going to draw the line, and we have drawn the line with respect to subsidized and dumped competition.

The law, however, is not adequate to protect against the degree of injury that is being caused. You do get 15 months or so free shot under a dumping case. You get market share. Then you can stop dumping, then you can adjust your prices or devalue your currency or take any one of a number of ways out and have market share in the United States, and that is exactly what has happened.

You could enforce these laws fully, and you would not have the answer. You don't have all the components if you are dealing just with trade. One has to deal with the restructuring aspects, and that is difficult in our society and in our economy. We don't like to get our hands dirty in talking to the domestic firms as to their investment plans or to the unions as to their work practices or wages.

Those are difficult issues, but if we want to have a competitive steel industry, and I am departing a little bit from my script, I am probably talking a little more personally than the Steel Institute.

Chairman GIBBONS. Your whole script will be in the record, and I will read it, because I have a great respect for you, Alan, and I am trying to understand the problem, so just go right ahead.

Mr. WOLFF. Well, I really have pretty much said what I came to say. A patch work of cases is not an answer. As you know, and you have said so this morning, if you restrict one product, not only do you get a bulge downstream in the production line, you get a shift into other products. If you restrict one country, the problem moves to other countries. We have tried to deal with steel.

Chairman GIBBONS. That is the reason for the provisions in my trade remedies bill about upstream subsidies and downstream dumping. That is the reason it is in there, just to try to catch that kind of scofflaw.

Mr. WOLFF. Well, I support that. The nature of the problem, though, has been with us since the late 1960's with the voluntary restraints first negotiated by Jules Katz and Tony Solomon, and then renegotiated in the early 1970's and then the trigger price mechanism and the series of cases that have been filed since then.

The problem is vast. It is partially of our own making, both in terms of company performance and in terms of our macroeconomic policies, but it is also in very substantial part the product of foreign industrial policies. And we are trying to deal with those policies piecemeal, product by product, company by company; it is not an effective means of dealing with the trade problem.

But I recognize that any solution has to deal with more than just the trade aspects. We don't want to protect something that is dwindling in international competitiveness, or to accelerate the loss of international competitiveness. We want quite the opposite result. My personal suggestion is that that requires a comprehensive trade remedy combined with an understanding of the restructuring that is going to take place, and the full participation of the labor movement. And I think that all of these parties are willing to talk with the appropriate government leadership.

I thank you.

[The prepared statement follows:]

STATEMENT OF ALAN WILLIAM WOLFF, PARTNER, VERNER, LIPPERT, BERNHARD & MCPHERSON, CHARTERED, ON BEHALF OF THE AMERICAN IRON & STEEL INSTITUTE

Mr. Chairman, my name is Alan Wm. Wolff. I am a partner in the Washington, D.C. law firm of Verner, Liipfert, Bernhard and McPherson, Chartered. I am representing the American Iron and Steel Institute in connection with this hearing, but I have been concerned with U.S. Government steel policy for some time, both when I served as Deputy Special Trade Representative and as the first chairman of the Steel Committee of the Organization for Economic Cooperation and Development. This morning, I would like to present to the Subcommittee my views concerning the current problems of the U.S. steel industry and the world context in which those problems have developed.

SUMMARY

The steel problem is multifacted. There are many things that the steel industry itself can do, and it is making substantial efforts towards achieving these goals. The steel companies are restructuring and making major capital investments. Through the joint efforts of steel management and labor, steel company hourly labor costs have been reduced from $23.78 in 1982 to $21.25 per hour in May 1984. What is being done is no doubt less than what is needed. I would submit that this is caused in substantial part by the inadequacy of U.S. public policies.

There are changes in the U.S. Government's domestic policies that could assist in the necessary restructuring of our steel industry. There are basic questions of the impact on the international competitiveness of this industry of trade, antitrust, tax, environmental and other domestic policies.

Appreciation of the need for these efforts on the part of firms and for appropriate governmental policies (other than trade) does not obviate the urgent need to re-examine U.S. trade policy. It is necessary to consider whether our usual approach to trade policy adequately addresses the steel trade problem. The trade policy decisions of the Congress and the Administration will determine whether the industry's restructuring efforts can be successful. Hearings such as this Subcommittee is holding are an important factor in assuring that these decisions are well informed and thereby result in more nearly optimum solutions to tough problems.

The U.S. steel industry and its problems cannot be correctly understood without an understanding of the world market and the factors that dictate the flow of steel within it. Our firm is just completing an extensive study of the nature of international competition in steel mill products. In the study, we have examimed the steel industries of most of the major steel producing countries. We have looked at the development of these industries, the determinants of current production and export levels, and the pervasive government involvement affecting trade and investment. We have found that natural comparative advantage—the traditional economic concept upon which the world and U.S. trade policy philosophy is based—has little to do with most foreign steel exports. In Japan, a steel industry was created and defined largely by government industrial policy; in the European Community (EC), overall steel production levels have been sustained by subsidies and dictated by regional employment problems; and, in developing countries, production and exports have come to be motivated substantially by requirements for foreign exchange, mistaken views of the "prestige" of steel as a benchmark of economic development, and severe debt problems.

In addition, the study examines the ways in which these major producing areas treat steel imports, and in none did we find anything approaching an open market for steel imports. The EC limits steel imports to a maximum of about 12 million net tons, or about 10 percent of apparent EC steel consumption. Imports accounted for about 3 percent of Japan's apparent steel consumption in 1982 and may have reached 4 percent in 1983, and even this modes level represents a quadrupling over very recent years. Most developing countries limit steel imports to those products which indigenous producers do not make or cannot make in sufficient quantity.

After looking at these foreign steel industries, the study examines the combined effects of international competition, including sales from subsidized and protected foreign steel producers, on the U.S. domestic industry. In part because of these foreign programs, employment in the domestic industry fell from over 500,000 in 1970 to 248,000 in May 1984. At the same time, steel imports grew from 13 percent of the U.S. market for steel in 1970 to over 20 percent in 1983 and now about 24 percent in the first half of 1984. Since January 1982, the U.S. steel industry has filed over 240 dumping and subsidy complaints. I have been involved in some of these cases from time to time, including two new cases filed against Korean subsidies and dumping of oil country tubular goods. The results of previous investigations hve been largely affirmetive. For example, final countervailing duty investigations revealed subsidy margins with respect to Brazilian cold rolled sheet and other products of 17 percent, and 62 percent, depending on the Brazilian manufacturer. Now, an import relief case is pending Presidential decision under section 201 of the Trade Act of 1974.

Imports have been the most significant but ot the sole determinant of the health of the U.S. industry today. Other factors, including the relatively higher costs of labor and capital in the United States, are also major factors. There is a trade policy problem to be confronted, however, and that is how best to prevent imports whose price and volume is determined by government policies from undermining the viability of U.S. producers while they undertake needed modernization.

THE JAPANESE STEEL INDUSTRY

Industrial policy

In July 1983, a study prepared by our firm titled "Japanese Government Promotion of the Steel Industries: Three Decades of Industrial Policy" was released. This study documented a series of Japanese government actions which protected the Japanese steel industry from many of the adverse effects of free market competition.

During periods of falling demand and falling prices, Japanese steel firms formed government sanctioned cartels to restrict output and prevent sharp declines in steel prices. These cartels were sometimes "depression cartels" implemented pursuant to administrative order, at other times they were "de facto cartels" formed pursuant to "administrative guidance" from Japan's Ministry of International Trade Industry (MITI), or, they may have been cartels formed merely with tacit approval of the Japanese government. By preventing price collapses during recessions, Japanese cartels have served as a mechanism for averting the sort of plant closings and layoffs that typically afflict the U.S. steel industry in severe recessions.

There are also numerous other forms of Japanese government aid which facilitated the development of overseas sources of raw materials, equipment investment and improvement in the steel transportation infrastructure. The Japanese government has at least as recently as 1982 bought surplus steel bars from Japanese firms and given them away free to developing nations as a means of supporting the minimill sector of its steel industry. It has also encouraged collective efforts among its steel makers with respect to new plant investment to insure optimum scale economies and plant locations.

The Japanese government took a variety of measures during the formative years of the restructuring of its industry to insulate its producers from market competition. It intervened in 1965 and 1966 to prevent the collapse of the Japanese specialty steel sector, by bailing out two large bankrupt firms and presiding over a series of mergers and "tie-ups" in that sector to improve integration and scale economies. During the period 1965–1970, MITI promoted the merger of the two largest Japanese integrated steel producers to enhance the Japanese industry's economies of scale in international competitiveness. In recent years, the Japanese government has been overseeing a program to rationalize its ailing minimill sector, encouraging mergers, cartels and joint use of facilities by firms in that sector.

Import policy

The Japanese government formally protected its steel industry against import competition until the early 1960's and, since then, has condoned continued structural barriers to imports, notably the reported refusal of large trading companies to handle imported steel. (This practice is not confined to steel, but is reported in many product areas, such as copper and chemicals.)

Imported steel, largely from the Republic of South Korea, has recently begun to make some inroads into the Japanese steel market. Imports took 3.1 percent of the Japanese steel market in 1982. A February, 1982, article from a Japanese magazine, Nikkei Business, suggests that Japanese steel consumers feel strong pressure from the Japanese steel producers not to purchase low-priced foreign steel. The article relates the efforts of an importer to keep its foreign steel purchases and the identity of its Japanese consumers confidential to prevent discovery by the major Japanese steel producers. After unloading a shipment of Korean steel onto the wharf at Osaka, the importer covered it with a tarp and at dusk slipped the steel onto a barge for delivery via canal to the Japanese consumer. The article asserts that steel delivered more openly and transported to the consumers by truck followed and the consumer identified to the major Japanese producers.

Results

Within this protected environment, the Japanese steel industry has developed about 142 million net tons of steelmaking capacity, far more capacity than is needed to meet total Japanese domestic demand, which reached 79 million net tons in 1973 but has not exceeded 69 million net tons since then.[1] This capacity has in turn naturally created pressure to export, particularly during recessions, when domestic demand is low and may be subject to cartel imposed output restrictions. In 1982, Japan exported 26 million net tons of steel, 22 percent of world steel exports. The U.S. market has been a primary destination for Japanese steel.

The purpose of this narrative is not to condemn Japanese government policies and practices as wrongful but simply to underscore the differences for our own. They are policies which must necessarily be taken into account in evaluating the competitive position of our own steel industry.

THE EUROPEAN ECONOMIC COMMUNITY

The Commission of the European Coal and Steel Community (ECSC), and the governments of its Member States, are extensively involved in the steel industry, and their actions have dominated much of the European steel industry since the worldwide structural crisis in 1974–1975. Since 1974–1975, these efforts have been remedial in nature, designed to assist a severely distressed industry. Prior to the structural crisis, the European governments had promoted its steel industry' growth by extending financial aid to these industries and assisting in expansion of capacity. Since the structural crisis, government financial aid and anti-competitive controls have allowed EC producers to retain and even at times expand capacity. While steel demand has decreased since 1974, EC steel production capacity increased until 1979. In 1983, EC steel production capacity was still 175 million net tons, 7.4 percent above its 1974 level. In 1981, EC surplus steel production capacity was estimated by the EC to be over 50 million net tons. To put this amount into perspective, it amounts to over 40 percent the total quantity of raw steel produced in the United States during that same year.

The intervention by European governments resulted in distortions in the EC market which had substantial spillover effects in the EC steel exports. EC steel accounts for a major share of the U.S. market for steel mill products. In 1982, before the U.S./EC Arrangements restricted EC steel exports to the United States, EC steel accounted for 7.3 percent of U.S. consumption of steel. When the U.S. Government investigated these imports of EC steel, it found preliminary dumping margins as high as 41 percent and final subsidy margins as high as 21 percent. This dumped and subsidized steel has been found to have caused material injury to the U.S. industry due to both its volume and price effects.

Our study of the European steel industry revealed a curious phenomenon resulting from the massive subsidies which many of the European steel producers have received from their national governments and the EC itself. Large state supported enterprises have aggressively cut their prices in the world market, and other producers even announced expansion plans while they were experiencing huge operating losses. Such market behavior, despite the EC efforts to limit price-cutting in its home market, has had such a detrimental effect on the few previously nonsubsidized EC producers that these producers are either being driven out of business or are being forced to demand subsidies from their own governments. For example, most steel producers in the Federal Republic of Germany have long condemned subsidization but are now beginning to accept financial aid simply to enable them to remain in the market. Subsidies, rather than efficiency or comparative advantage, have become the decisive market force.

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[1] Source: Steel Statistical Yearbook 1983, International Iron and Steel Institute, and OECD preliminary production capacity data.

These subsidies are augmented by a comprehensive network of government market controls, most of which was put into place between 1975 and 1977 and which has been modified and strengthened at various times since. The European Coal and Steel Community, working with its major producers, has formed an EC-wide steel cartel to increase EC prices in the EC market. This cartel, in its current form, consists of the following principal elements:

(1) *Production quotas.*—The ECSC has imposed mandatory steel production quotas on key product lines and voluntary steel production quotas on other lines within the EC to stabilize steel prices in the Common Market by reducing the quantity of steel available to European consumers.

(2) *Minimum prices.*—The ECSC periodically establishes mandatory minimum prices in some product lines and establishes minimum "guidance" prices in other product lines with which producers are expected to comply voluntarily.

(3) *Import restrictions.*—The ECSC further supports these quantity and price restrictions by imposing restrictions on imported steel. The EC has negotiated a comprehensive array of restrictive bilateral agreements with each of its major foreign steel suppliers. The prices of any steel imports that are not covered by these bilaterial agreements are monitored by the EC against minimum import prices.

While protection of the home market has not always functioned smoothly it has assisted EC producers in maintaining "floor prices" for their products and even allowed them to raise prices for sustained intervals, conferring a financial benefit comparable to a subsidy. The EC has limited steel imports (from outside the EC) to about 10 percent of its domestic steel consumption.

This cartel and the massive financial aid received by the EC producers has had severe adverse effects on U.S. steel producers. By severely restricting competition within the EC itself, the system encourages the EC producers to seek non-European markets and to sell in these markets at price levels that are too low to be sustained other than by subsidized producers. The U.S. market has functioned as a release valve for the excess EC production capacity. Significantly, when the EC home market cartel has been functioning most successfully in maintaining the internal price floor and output restrictions, low-prices EC exports to the U.S. have surged. Conversely, on those occasions when the U.S. has responded with trade actions against the low-priced European steel, the steel has been diverted into the EC market and caused the EC internal price structure to collapse.

To date, the ECSC has had only marginal success in its efforts to reduce its surplus capacity. In a free competitive environment, the surplus capacity would have been reduced long ago. The EC had about 163 million net tons of capacity in 1974 which increased to a peak of about 185 million net tons in 1979. By 1983, this had only decreased to 175 million net tons, still 12 million net tons above the 1974 level. The EC is unlikely to achieve significant reductions in its surplus capacity in the foreseeable future.

THE DEVELOPING COUNTRIES

In the 1970s, numerous developing countries (LDCs) launched ambitious efforts to expand their steel industries. These efforts were, in part, designed to enhance national self-sufficiency in steel, but they were based on what have proven to be grossly over-optimistic projections of domestic demand. Further, many new LDC mills were frankly intended to supply export markets. Entire state-of-the-art "turn-key" steel plants were imported from developed countries, who often competed with each other to extend generous terms to buyers. These plants were financed in part by government subsidies and loans, but also through loans on extraordinarily generous terms from western financial institutions—who, like the equipment suppliers, competed with each other to extend financing to the developing nations. Between 1977 and 1980, an estimated $7.8 billion in export credits, largely on a concessionary basis, were extended to LDCs by developed countries to finance LDC steel projects.

The rapid growth of steelmaking capacity in these nations has had a profound impact on global steel competition. The LDCs once constituted major steel-importing markets where European and Japanese producers could dispose of their surpluses. As nations like Brazil and South Korea have achieved self-sufficiency, however, this source of demand has no longer been available—and indeed, most of these nations have imposed severe restrictions on imports as their industries have matured. The shrinkage or disappearance of many of these markets has inevitably increased the pressure of European and Japanese exports on the U.S. market.

Moreover, the expansion of LDC steelmaking capacity has coincided with the stagnation of worldwide steel demand, and has been a major factor contributing to global excess capacity in steel. When the recession of the early 1980s began to affect these countries, they found that they possessed steelmaking capacity far greater than that needed to satisfy domestic demand—and in many cases, these countries were also facing a crushing burden of debt to western banks. Use of the new steel plants to produce for export has been a significant way for these nations to maintain domestic employment and generate foreign exchange needed to continue payments on their foreign debt.

LDC governments have displayed a determination to export at any cost—exports have been massively subsidized, and national currencies depreciated, to achieve this end. While one can sympathize with the current plight of the LDCs, their low priced steel exports can hardly be characterized as reflecting the normal working of a free market. In fact, misguided government policies have produced, and continue to produce, an extraordinary distortion of the market on a global scale.

In 1983, foreign steel producers, other than Japan, the EC, and Canada, exported 6.3 million net tons of steel to the United States, an increase of 57 percent over 1982 levels. By April 1984, producers in fourteen of these countries had been included in steel antidumping and/or countervailing duty complaints. Brazil, for example (an LDC with severe debt problems), accounted for 20 percent of the 6.3 million net tons of imports from these countries in 1983.

U.S. imports of Brazilian steel doubled from 0.6 million net tons in 1982 to 1.3 million tons in 1983 and 80 percent of these 1983 imports were eventually included in unfair trade complaints. One of the first such cases filed in August 1982, concerned U.S. imports of Brazil wire rod. The Department of Commerce found dumping margins ranging from 49.6 percent to 76.5 percent, and the USITC determined that the U.S. wire rod industry had been materially injured by the imports. On November 16, 1983—fifteen months after the complaint was originally filed—the Department of Commerce published an antidumping order on Brazilian wire rod.[2] In late April 1984, the Department of Commerce determined that Brazil was also selling carbon steel plate and hot and cold rolled sheet in the United States at prices that reflected subsidy margins of 17 percent to 62 percent.

Access for foreign steel into these developing country markets is nearly universally restricted to satisfying demand which the domestic industry cannot satisfy, usually because domestic companies' inability to produce a specific steel product. The curtailing of market forces is employed by almost every developing country during the establishment of production capacity, and during achievement of expanded production and export levels. Driving this expansion are motivations very different from those (such as return on investment) which affect American producers. The determinants in the developing countries are debt repayment requirements, acquiring foreign currency, and maintaining employment.

U.S. POLICY

The foreign practices described above have helped create the substantial share of the U.S. market that imports of basic steel mill products have obtained over the past 20 years. In the early 1960s, U.S. imports of basic steel mill products were 3 million to 4 million net tons and represented less than 5 percent of the U.S. market. By 1981, U.S. imports of steel mill products had reached nearly 20 million tons and accounted for 19 percent of the U.S. market. In 1982 and 1983, when the U.S. steel industry was operating at only 47 percent and 55 percent of its production capability, imports remained at 16.7 and 17.1 million tons taking 22 percent and 20 percent of the U.S. market in 1982 and 1983, respectively. Now in the first half of 1984, imports accounted for about 24 percent of the U.S. market. Over this 10 year period, U.S. steel industry employment has dropped from over 500 thousand workers in 1970 to half that amount or about 247 thousand in 1983 and early 1984.

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[2] The Department substantially nullified the effect of the order on April 10, 1984, when it completed an early review of the antidumping order. The review was based on a single sale which was greatly affected by a Brazilian government currency devaluation. The review looked at U.S. imports of Brazilian wire rod since the Department of Commerce's May 4, 1983 announcement of its preliminary findings in the original case. During the period covered by the review, the Department of commerce found no dumping margins on the sales of one of the two Brazilian exporters and 7.4 percent margin on the other. This means that one of the Brazilian producers has to pay neither dumping duties nor post a cash deposit despite its 1982-1983 dumping margins of 76.5 percent. The other producer pays dumping duties and posts cash deposits of 7.4 percent of the Customs value of its U.S. sales despite its earlier dumping margins of 49.6 percent.

1968-74 voluntary restraint agreements

The U.S. Government's response to these imports has been varied. In 1968, the U.S. Government negotiated voluntary restraint agreements with the Europeans and the Japanese. The agreements were relatively successful for the first two years (1969 and 1970)—most likely because of strong demand in the source countries. But in late 1970 and 1971, the European market slumped and, as is typical with steel when a home market slumps, foreign producers look for outside markets. In 1971, both the EC and Japanese producers exceeded their quotas, by 13 percent and 9 percent, respectively. The voluntary restraint agreements incorporated no U.S. enforcement element. Despite the problems in 1971, the U.S. renegotiated these voluntary restraint agreements in 1972 to last through 1974.

In both 1973 and 1974, there was a worldwide steel shortage and import restraints were not an issue. The voluntary restraints were allowed to lapse in the hope that the strong demand for steel would continue and import problems would not return. But this was not to be the case. By 1976, foreign producers were returning to the U.S. market and by 1977, they had taken 18 percent of the market. In 1976, the American Iron and Steel Institute filed a section 301 petition against Japan, arguing that Japanese export restrictions on Japanese steel to the EC were deflecting the Japanese steel to the U.S. market. This complaint was ultimately rejected as being unsupported by evidence on the record just after the trigger price mechanism was introduced.

Steel trigger price mechanism

In 1976 and 1977, U.S. steel producers filed over 20 antidumping complaints against Japanese and European pricing practices in the U.S. market. Upon receiving this volume of complaints, the Administration, concerned that the investigations would result in the virtual exclusion of European steel from the U.S. market, a result thought to be politically and diplomatically unacceptable, created a task force headed by Under Secretary of the Treasury Anthony Solomon to develop alternative solution. The antidumping statute did not provide the Administration the administrative flexibility of delaying a substantive response in those cases as in the steel industry's section 301 petition.

Under Secretary Solomon developed the steel trigger price mechanism (TPM) as an alternative to the individual antidumping cases. This system recognized the global nature of the steel problem and the importance of expeditious relief to the long-term health of the U.S. steel industry. Under the TPM, the U.S. Government promised to monitor the prices of all steel imports and to initiate expedited formal antidumping investigations whenever the price and quantity of a specific steel product from any country indicated that the imports were being sold at less than fair value and causing material injury. Selling steel in the U.S. market below the applicable trigger price was considered preliminary evidence of a below fair value sale.

Trigger prices were based on an estimate of Japanese cost of production. Since the Japanese steel producers were generally recognized as the world's most efficient steel producers, using Japanese cost of production as a benchmark allowed the less efficient European producers to sell in the United States at prices substantially below their own fair value. This situation was aggravated further in 1979 when trigger prices failed to increase, and even declined slightly despite rising steel production costs worldwide. The decrease was a function of the depreciation of the Japanese yen relative to the dollar in 1979 and was totally independent of changes in steel production costs. This failure to increase with increasing production costs made trigger prices an even less realistic tool for monitoring for European dumping, and U.S. imports of EC steel remained high throughout 1979. U.S. steel producers filed antidumping complaints against the EC producers in March 1980 in response to continued injury from European below fair value sales.

The U.S. Government again resisted direct enforcement of the unfair trade statutes. After lengthy negotiations, the U.S. Government induced the steel producers to withdraw their complaints in favor of a strengthened TPM system that was accompanied by a quantitative element. This revised system was implemented in October 1980, but was in trouble almost immediately.

The U.S. market for steel was entering a deep slump at the end of 1980, led by collapse in the market for steel sheet, a market that was heavily dependent on U.S. automobile production. Import levels of steel mill products were fairly low in the first half of 1981. But then in the Spring of 1981, foreign producers, particularly the Europeans, began to ignore completely the steel trigger prices and sell large quantities of very low-priced steel, later determined to be dumped and subsidized, in an increasingly depressed U.S. steel market. Finally, in November 1981, after import statistics began substantiating the flood of imports, the U.S. Government self-initiated seven unfair trade cases.

The U.S. Government argued that these seven cases would cause other foreign producers to cease violations of the U.S. trade statutes. The U.S. steel producers believed that they could not afford to wait to see if this would be the result. They filed 132 antidumping and countervailing duty complaints in February 1982, and the steel trigger price mechanism was again suspended—this time not to be reinstated on the major steel products.

With the establishment of the trigger price mechanism, the U.S. Government recognized the uniqueness of the steel import problem. The U.S. steel industry produces a variety of products. Under the dumping statute, the U.S. International Trade Commission views the production of each of these products as constituting a separate industry. Therefore, domestic steel companies must prove material injury due to dumping separately for each of the various different steel products. This fact combined with the large number of steel producing countries which ship significant quantities of steel to the United States has meant that the problems of dumping and subsidization cannot be resolved by a few unfair trade cases. The impact of unfair trade practices continually shifts to new product/country combinations which are seemingly infinite in variety.

U.S./EC arrangements

Shortly after these 132 antidumping and countervailing duty complaints were filed, the U.S. Government began negotiating with the EC to devise a means of substantially relieving the unfair trade problem while minimizing the strain on U.S./EC relations. The U.S./EC Arrangement were the result of these negotiations and they were put in place in October 1982. The principal Arrangement, the Arrangement Concerning Certain Steel Products, restricts EC exports of each covered steel products to the United States to an agreed share of the U.S. market, calculated by product, by requiring EC export licensing for about 74 percent, and the monitoring with potential for licensing for another 13 percent, of the steel entering the U.S. from EC.

A companion Arrangement on Steel Pipes and Tubes covers about another 12 percent of U.S. imports of steel from the EC. In this arrangement, the EC agreed that if U.S. imports of EC pipes and tubes exceed 5.9 percent of the U.S. market for pipes and tubes, the U.S. and EC would consult to find an appropriate means of preventing diversion of EC steel exports to the United States into these products. Diversion was defined as an increase in the EC share of the U.S. pipes and tubes market from 5.9 percent, the 1979–1981 average. The intent was to preclude the necessity of another round of U.S. antidumping and countervailing duty cases against EC producers. It appears this may be in the process of failing as I discuss below.

Developing country imports

With the exception of the agreement on Pipes and Tubes, the U.S./EC Arrangements seem to be working reasonably well through last year and into 1984. However, the breadth and persistence of the steel import problem has again become apparent. In 1983, after most European shipments were finally controlled by the U.S./EC Arrangement, imports from developing countries increased by nearly 60 percent over their 1982 levels. Deputy Assistant Secretary Holmer, as recently as September 1983, indicated that his office was conducting 42 separate steel investigations with respect to imports from Brazil, Mexico, Argentina, South Korea, Taiwan, Spain, Australia, Poland, Finland, Czechoslovakia and South Africa.

Mr. Holmer further indicated that in total his office had conducted nearly 170 steel cases since January, 1982. This means that the U.S. industry may have experienced almost 170 separate product/country cases of material injury from imported steel products.

OECD steel committee

As early as 1978, the U.S. Government recognized that the steel problem was a world steel problem and that any multilateral solution would require major adjustments in national policies in many countries. The United States led the way in 1978 in the formation of the Steel Committee in the OECD. The OECD Steel Committee was created as a forum for consultation among the major trading partners with the hoped for addition of less developed countries to review a wide range of steel problems. The U.S. has used the OECD Steel Committee repeatedly as a place to press for a reduction in government created and supported excess steel capacity and for the elimination of the massive subsidies which steel industries continue to receive. The U.S. Government has also used this forum to press our trading partners for an agreement to halt the subsidized loans for building of steel plants in developing countries. The OECD Steel Committee has provided a forum for continuing consultations with other countries rgarding the world steel problem, but it has not provided to be, nor was it intended to be a panacea for the steel problem.

Strength of the U.S. dollar

Some observers have attributed much of the recent rise in steel imports to the strength of the U.S. dollar. Assessing the impact of the exchange value of the dollar on U.S. steel imports over the last five years is a difficult task because of the continuing depressed demand for steel worldwide, and extensive government intervention in steel production and trade, including the existence of various types of trade restrictions on U.S. steel imports since 1979. The dollar has been strong throughout this period and has adversely affected the competitiveness of the U.S. steel industry as it has other U.S. manufacturing industries.

Since September 1980, the dollar has risen about 35 percent against other major currencies on a trade-weighted basis. Adjusted for inflation, the dollar appreciation in real terms has been about 45 percent. There has been a number of factors that have contributed to this appreciation of the dollar, perhaps most importantly, rising U.S. interest rates.

Also contributing to the dollar's strength over this period were the severe debt repayment difficulties of many developing countries. The U.S. dollar's sharp fall in 1971–1973, and again in 1977–1978, attracted heavy borrowing by developing countries in dollar-denominated liabilities.

A final outcome of the debt crisis, significant for steel trade, is the export push by major debtor countries to earn foreign exchange. The two largest developing country debtors dramatically increased steel exports to the United States in 1983 compared to 1982. Brazil's exports doubled from 1982 to 1983, increasing from 0.6 million net tons to 1.3 million net tons. Mexico's exports rose sevenfold, growing from 113,000 net tons to 651,000 net tons.

The dollar's increasing value has not been the controlling factor in determining overall levels of U.S. imports of steel since 1979. However, the dollar's 32 percent[3] overvaluation aggravates the U.S. industry's other competitive disadvantages such as low foreign wages, huge foreign subsidies and other government assistance, and closed foreign markets.

CONCLUSION

Several options are open to the U.S. Government regarding steel trade. One option is to let things continue as they are now. This option should not be chosen under the mistaken assumption that it is without major costs. Our steel trade policy to date has been to provide some minimum level of relief and hope that the problem will disappear. This explains the VRAs in 1968 and 1972, the TPM in 1977 and 1980, and the hodgepodge of measures since then. Export licenses are currently required on about 74 percent of U.S. imports of European steel, and we "consult" (with the possibility of requiring export licenses on additional steel products should the EC market share of these products increase) regarding the U.S. import levels on the rest of our carbon steel imports from Europe. And, part of this deal—which has just passed the mid-point in its three-year life—is being severely threatened as U.S. imports of European pipe and tube took nearly 14 percent of the U.S. pipe and tube market in the first quarter of 1984, over 130 percent in excess of the agreed market share of 5.9 percent.

The 1982 U.S./EC Arrangements, which should have allowed the U.S. steel industry an opportunity to focus its attention on modernization rather than pursuing unfair trade cases, as well as relieving U.S./EC trade tensions, has certainly not done the former. Unfair trade merely shifted its primary point of origin from Europe to the developing countries. While U.S. imports of European steel decreased by nearly 1.5 million net tons in 1983 from 1982 levels, U.S. imports of steel from countries other than Japan, the EC Member States, or Canada increased by 2.4 million net tons in 1983. By early 1984, domestic steel producers had filed unfair trade cases covering about two-thirds of the imports from these suppliers.

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[3] Economic Report of The President, February 1984 at 53.

Some may look at this situation and declare that the system is working—a massive surge of unfairly traded imports was met by U.S. steel producers filing numerous unfair trade complaints. The Department of Commerce and the International Trade Commission performed the investigations and many antidumping and countervailing duty orders are being issued.

This result, however, has come at enormous cost to the U.S. steel industry. U.S. trade laws require the petitioning industry to demonstrate material injury or threat of material injury, with the standard for threat being high enough that the U.S. industry generally must have experienced actual injury before it can receive relief from unfair trade practices.[4]

Even after the U.S. producer has proven that the foreign producer/exporter has been dumping merchandise in the U.S. market and injuring a U.S. industry—a process that requires 9 to 13 months—the foreign producer may never pay an antidumping duty. Our trade laws provide each producer/exporter at least one free shot per product at the U.S. market. The original antidumping order may require large cash deposits reflecting the severe price cutting which injured the U.S. producers, but once the order is issued, the foreign producer/exporter may request an immediate review of the margins found in the original determination. This review covers only imports occurring after the first Department of Commerce affirmative determination of less than fair value sales and it must be completed within 90 days of the publication of the antidumpting order. If the foreign producer/exporter stopped dumping by the time Commerce makes it first affirmative determination of less than fair value sales, then Commerce's 90 day review will relieve the producer/exporter of the rquirement to post cash deposits on the import entries. Regardless of the size of the original dumping margins or the degree of injury to the U.S. industy, the foreign producer/exporter may be able to avoid ever paying antidumping duty or posting a cash deposit. Given the more than 30 basic steel mill products and more than 20 countries supplying steel to the U.S. market, over 600 free shots at the U.S. market are provided and a lot of injury can occur to the U.S. industry.

Section 201 of the Trade Act of 1974 is a possible solution. Section 201 can work satisfactorily for some industries, but the complexity of the steel problem may exceed the scope of this statute. In the pending steel section 201 case, the USITC found injury for some products and recommended to the President a mix of quotas and tariffs. I do not see a further patchwork of relief as recommended by the USITC, with some products covered by tariffs, some by quotas, and some not at all, as an effective approach to dealing with the trade aspects of a solution to the nation's steel problem. A more comprehensive approach is needed.

Another alternative to the status quo is legislated quotas. The steel quota bill has attracted many sponsors. Failure to deal with the international competitive problems of the steel industry, both in terms of trade policy and domestic policy, gives rise to this support. If alternative policy options are rejected, the enactment of quota legislation becomes highly likely.

The steel problem is too severe, too resistant to the normal trade policy solutions, and the industry too important to the U.S. economy, to leave to chance. The U.S. steel industry must adjust, and is adjusting with great pain an no concerted program of govenment assistance, to become more competitive.

This adjustment of U.S. steel companies is severely hindered by the flood of imported foreign steel which has been entering the United States in quantities and at prices that reflect foreign government subsidies and industrial policies rather than natural competitive advantage. Enforcement of the trade statutes cannot be considered a satisfactory solution when 240 antidumping and countervailing duty cases have not resolved the unfair trade problem. With the possible exception of Canada, assertions that the U.S. market is the only major open market for steel are statements of fact, not exaggerations. As such, our market acts as a dumping ground for the problems of the world steel industry, with enormous costs for the U.S. economy.

A comprehensive solution is needed that goes beyond trade restrictions. Yet it would be naive to conclude that trade restrictions will not play their part in this matter. A way should be found to deal with the continual drain of U.S. producers' economic strength due to government supported foreign competition and to foster U.S. producers' successful restructuring. By holding these hearings the Subcommittee is making an important contribution to defining the problem. There is an urgent need for the U.S. Government to do a better job than it is currently doing in reducing the effects on this market of unfair trade and in facilitating rationalization of our domestic industry.

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[4] Countries which have not signed the GATT Subsidies Code are an exception to this rule. Countervailing duties can be applied without the need for showing injury.

This is not an academic debate of free trade versus protectionism. Protection is being and will continue to be granted. It clearly is not being applied either effectively or efficiently, and may be judged to be unsatisfactory from every point of view. It is time for a full evaluation of the facts of international competition in the steel sector and for the adoption of public policies that lead to a result that can be widely supported as being in the nation's best interest. The current approach to trade in steel mill products clearly does not meet this standard. For steel, at this time, it appears that only a comprehensive approach to trade in the context of industry restructuring can provide an effective remedy.

STEEL CASES FILED SINCE JANUARY 1982

Date filed	Country	Case type	Product
Jan. 11, 1982	Belgium	Countervailing duty	Hot-rolled carbon steel plate.
Do	Brazil	do	Do.
Do	United Kingdom	do	Do.
Do	West Germany	do	Do.
Do	Belgium	do	Hot-rolled carbon steel sheet and strip.
Do	France	do	Do.
Do	Italy	do	Do.
Do	The Netherlands	do	Do.
Do	West Germany	do	Do.
Do	France	do	Cold-rolled carbon steel sheet and strip.
Do	The Netherlands	do	Do.
Do	West Germany	do	Do.
Do	Italy	do	Do.
Do	Belgium	do	Carbon steel structural shapes.
Do	France	do	Do.
Do	Luxembourg	do	Do.
Do	United Kingdom	do	Do.
Do	West Germany	do	Do.
Do	United Kingdom	do	Hot-rolled carbon steel bar.
Do	do	do	Cold-formed carbon steel bar.
Do	France	do	Hot-rolled carbon steel plate.
Do	Italy	do	Do.
Do	Luxembourg	do	Do.
Do	The Netherlands	do	Do.
Do	Brazil	do	Hot-rolled carbon steel sheet and strip.
Do	Luxembourg	do	Do.
Do	United Kingdom	do	Do.
Jan. 11, 1981	Brazil	do	Cold-rolled carbon steel sheet and strip.
Do	Belgium	do	Do.
Jan. 11, 1982	Luxembourg	do	Do.
Do	United Kingdom	do	Do.
Do	Belgium	do	Galvanized carbon steel sheet.
Do	France	do	Do.
Do	Italy	do	Do.
Do	Luxembourg	do	Do.
Do	The Netherlands	do	Do.
Do	United Kingdom	do	Do.
Do	West Germany	do	Do.
Do	Brazil	do	Carbon steel structural shapes.
Do	Belgium	Countervailing	Hot-rolled carbon steel bar.
Do	France	Countervailing duty	Do.
Do	Italy	do	Do.
Do	Luxembourg	do	Do.
Do	West Germany	do	Do.
Do	France	do	Hot-rolled alloy steel bar.
Do	Italy	do	Do.
Do	United Kingdom	do	Do.
Do	West Germany	do	Do.
Do	Belgium	do	Cold-formed carbon steel bar.

STEEL CASES FILED SINCE JANUARY 1982—Continued

Date filed	Country	Case type	Product
Do	Brazil	do	Do.
Do	France	do	Do.
Do	Italy	do	Do.
Do	West Germany	do	Do.
Do	Belgium	do	Cold-formed alloy steel bar.
Do	France	do	Do.
Do	Italy	do	Do.
Do	United Kingdom	do	Do.
Do	West Germany	do	Do.
Do	Belgium	Antidumping	Hot-rolled carbon steel plate.
Do	Romania	do	Do.
Do	United Kingdom	do	Do.
Do	West Germany	do	Do.
Do	Belgium	do	Hot-rolled carbon steel sheet and strip.
Do	France	do	Do.
Do	Italy	do	Do.
Do	The Netherlands	do	Do.
Do	West Germany	do	Do.
Do	France	do	Cold-rolled carbon steel sheet and strip.
Do	Italy	do	Do.
Do	The Netherlands	do	Do.
Do	West Germany	do	Do.
Do	Belgium	do	Carbon steel structural shapes.
Do	France	do	Do
Do	Luxembourg	do	Do.
Do	United Kingdom	do	Do.
Do	West Germany	do	Do.
Do	France	do	Hot-rolled carbon steel plate.
Do	Italy	do	Do.
Do	Luxembourg	do	Do.
Do	The Netherlands	do	Do.
Do	Luxembourg	do	Hot-rolled carbon steel sheet and strip.
Do	Belgium	do	Cold-rolled carbon steel sheet and strip.
Do	Luxembourg	do	Do.
Do	United Kingdom	do	Do.
Do	Belgium	do	Galvanized carbon steel sheet.
Do	France	do	Do.
Do	Italy	do	Do.
Do	Luxembourg	do	Do.
Do	The Netherlands	do	Do.
Do	United Kingdom	do	Do.
Do	West Germany	do	Do.
Jan. 19, 1982	Korea	Countervailing duty	Steel wire nails.
Jan. 20. 1982	Japan	Antidumping	Seamless alloy pressure pipes and tubes.
Do	do	do	Seamless heat-resisting pipes and tubes.
Do	do	do	Seamless stainless steel pipes and tubes.
Feb. 17, 1982	Spain	Countervailing duty	Hot-rolled stainless bar.
Do	do	do	Cold-formed stainless bar.
Do	do	do	Stainless wire rod.
Apr. 26, 1982	West Germany	Antidumping	Stainless sheet.
Do	do	do	Cold-rolled stainless strip.
May 7, 1982	South Korea	Countervailing duty	Hot-rolled carbon steel plate.
Do	do	do	Hot-rolled carbon steel sheet.
Do	do	do	Cold-rolled carbon steel sheet.
Do	do	do	Galvanized carbon steel sheet.
Do	France	do	Large diameter welded carbon steel pipe and tube.
Do	Italy	do	Do.
Do	do	do	Small diameter welded carbon steel pipe and tube.

STEEL CASES FILED SINCE JANUARY 1982—Continued

Date filed	Country	Case type	Product
Do	Brazil	do	Do.
Do	West Germany	do	Large diameter welded carbon steel pipe and tube.
Do	South Korea	do	Small diameter welded carbon steel pipe and tube.
May 10, 1982	France	Antidumping	Stainless sheet and strip
May 18, 1982	South Africa	Countervailing duty	Deformed steel bars.
June 14, 1982	do	do	Steel wire rope.
June 16, 1982	Brazil	do	Hot-rolled stainless steel bar.
Do	do	do	Cold-formed stainless steel bar.
Do	do	do	Stainless steel wire rod.
July 30, 1982	do	do	Tool steel bar.
Do	do	do	Tool steel wire rod.
Do	West Germany	Antidumping	Tool steel bar.
Do	do	do	Tool steel wire rod.
Sept. 28, 1982	Korea	do	Steel wire rope.
Sept. 30, 1982	Brazil	do	Carbon steel wire rod.
Do	Trinidad and Tobago	do	Do.
Oct. 6, 1982	South Africa	Countervailing duty	Carbon steel pipe and tubes.
Oct. 7, 1982	United Kingdom	do	Stainless steel sheet.
Do	do	do	Stainless steel strip.
Do	do	do	Stainless steel plate.
Jan. 31, 1983	Brazil	Antidumping	Hot-rolled carbon steel products.
Apr. 21, 1983	Korea	do	Circular welded carbon pipes and tubes.
Do	do	do	Rectangular welded carbon pipes and tubes.
Do	Taiwan	do	Circular welded carbon pipes and tubes.
Apr. 29, 1983	Italy	Countervailing duty	Forged components for the undercarriage of crawler-type tractors.
Do	do	Antidumping	Forged components for the undercarriage of crawler-type tractors.
May 16, 1983	Trinidad and Tobago	Countervailing duty	Carbon steel wire rod.
Sept. 22, 1983	Japan	Antidumping	Steel valves and parts.
Sept. 29, 1983	Belgium	do	Flat-rolled carbon steel products.
Do	West Germany	do	Do.
Oct. 31, 1983	Korea	do	Hot-rolled carbon steel plate.
Nov. 10, 1983	Brazil	do	Hot-rolled carbon sheet.
Do	do	do	Cold-rolled carbon sheet.
Do	do	Countervailing duty	Carbon plate.
Do	do	do	Products in coils.
Do	do	do	Hot-rolled carbon sheet.
Do	do	do	Cold-rolled carbon sheet.
Do	Mexico	do	Carbon structural shapes.
Do	do	do	Galvanized sheet.
Do	do	do	Hot-rolled carbon sheet.
Do	do	do	Cold-rolled carbon sheet.
Do	do	do	Carbon steel plates in coils.
Do	do	do	Carbon plate cut to length.
Do	do	do	Small diameter carbon welded pipe.
Do	Argentina	do	Hot-rolled carbon sheet.
Do	do	do	Cold-rolled carbon sheet.
Nov. 23, 1983	Spain	do	Carbon steel wire rod.
Do	do	Antidumping	Do.
Do	Argentina	do	Do.
Do	Mexico	do	Do.
Do	Poland	do	Do.
Do	do	Countervailing duty	Do.
Do	Czechoslovakia	do	Do.
Jan. 13, 1984	Spain	Antidumping	Stainless steel sheet and strip.
Feb. 10, 1984	Australia	Countervailing duty	Carbon steel products.
Do	Finland	Antidumping	Do.
Do	South Africa	do	Do.

STEEL CASES FILED SINCE JANUARY 1982—Continued

Date filed	Country	Case type	Product
Do	Spain	do	Do.
Do	Australia	do	Do.
Do	Finland	do	Do.
Mar. 13, 1984	Mexico	Countervailing duty	Deformed concrete reinforcing bars.
Do	do	do	Hot-rolled carbon bars.
Do	do	do	Hot-rolled carbon bar-size shapes.
Mar. 21, 1984	Brazil	Antidumping	Large diameter welded pipes.
June 13, 1984	do	Countervailing duty	Oil country tubular goods.
Do	Korea	do	Do.
Do	Spain	do	Do.
Do	Argentina	Antidumping	Do.
Do	Brazil	do	Do.
Do	Korea	do	Do.
Do	Mexico	do	Do.
Do	Spain	do	Do.
June 18, 1984	Korea	Countervailing duty	Carbon steel angles, shapes, and sections.
Do	do	do	Do.

Chairman Gibbons. Nobody is going to talk if we give you these quotas. Nobody is going to talk. They will just all be out there living it up for another 4 or 5 years, and instead of just acquiring Marathon Oil and Marathon turn around and acquiring Husky, you will be acquiring everything else around here. That is the problem.

We won't just have steel wages 74 percent higher than the American industrial average, we will have 200 percent of the American industrial average if we let this go on. There won't be any jobs left for anybody else except a few people that had some jobs in the steel plants. If they can't sell their materials to somebody around here, there won't be any jobs.

So we are going to have to have some discipline. The discipline may start right here, and I want to start the discipline by saying dumped goods and subsidized goods stay out of this country.

Mr. Wolff. I will just point out that steel wages have dropped——

Chairman Gibbons. One dollar. I know what they dropped.

Mr. Wolff. And 53 cents.

Chairman Gibbons. So, they are only about 70 percent higher now than the average American industrial wage.

I feel sorry for anybody that had to give up wage. But you can't pay labor that much and give them stone-age tools.

Mr. Wolff. Well, it seems to me that as a matter of national policy, it is something that is difficult for us to consider. We have to decide that in fact we want an internationally competitive steel industry, and then sit down and think through it.

Chairman Gibbons. I don't know why the people that run the steel industry don't just put a for sale sign up now and say, "We don't know how to run the business. We have gotten and the Government has gotten it screwed up. We don't know how to run the business. Someone come buy it and pay us what it is worth."

Mr. Wolff. But instead you look at Youngstown. The plants closed.

Chairman **Gibbons**. That was not a steel plant. That was a museum. That plant was built before the turn of the century.

Mr. **Wolff**. But the question is why isn't there the new investment? It is not attractive to invest under these conditions in steel capacity. There are some people who are brave enough to do so, and there have been some major investments made by the major steel companies in recent years, but on the whole, it is not the world's most attractive industry in the United States for investment.

And part of that is everyone else is guaranteeing a higher rate of capacity utilization to their own folks than we are, and we have to recognize that.

Chairman **Gibbons**. Well, should we go socialist because everybody else goes socialist? That is what, in effect, you are arguing. If we do, let's look at the other socialist societies.

Mr. **Wolff**. No, I wouldn't say that. That isn't a question of free trade versus protectionism in my view. We will grant protection. We have and we will continue to do so. There will be steel import restrictions.

The question is, are they going to be effective? And by effective, I would mean in terms of the impacts of imports on this market as well as causing or being part of the restructuring of this industry. We always adopt half solutions. We do a little bit and the little bit has consumer costs with very questionable benefits. I think that is why the steelworkers have come around to the point of view and Senator Heinz, I remember, testified before you that he wanted to introduce into section 201 the concept of an adjustment planning process. You could call that socialism, but if we are going to grant that import relief, there ought to be some return, and that is more intervention.

You could say that, but we always intervene on the trade side. The restrictions get slapped on no matter what. It is just that they are not effective.

Chairman **Gibbons**. Well, I don't necessarily disagree with you there. It is obvious that if this Congress decides to grant quota relief as this bill advocates here, there ought to be some assurance to the American public that it is going to do some good. There ought to be some assurance to the steelworker that it is going to do some good, because if not, we are just kidding ourselves.

If you have got any ideas about that, we will be glad to receive them, either officially or unofficially.

Mr. **Wolff**. Well, you have some legislation pending before the committee. You have, of course, the ability to report out the kind of legislation you see fit. There is a major problem. There is a crisis. It is sectorial as well as across the board. It is not just macroeconomic, and I would suggest that a broader, more comprehensive approach is absolutely required for the second.

Chairman **Gibbons**. Mr. Frenzel.

Mr. **Frenzel**. Alan, you indicated just recently in one of your statements here that other countries were holding up their steel production, and it seems to me that Europe has made a much better effort, much more successful effort to reduce their productive capacity than we have done in the United States.

Isn't that true, or do you challenge that statement?

Mr. **Wolff**. Well, actually, we have cut back far more than the Europeans as a percent and in absolute tonnage. The Europeans have cut back in the last few years, but actually throughout the period when everyone could see that there was major overcapacity coming, they were still expanding through 1979, which was the peak of their capacity, and then they have cut back a bit since then. But they are actually higher now than they were a decade ago.

It is sad to say. They have a major problem. They are struggling with it. I give them credit for it, but they are not willing to accept the share of imports that we have in the process of struggling with that problem.

Chairman **Gibbons**. I don't want to model our society after their society. I look at all the inefficiencies they have got, and the high prices they have got and the way they live, and I prefer our system.

Mr. **Frenzel**. I will take a look at those figures. We had a study here, done by CBO, and those figures, I think, at least gave me a different impression. I will review those, but I am inclined to agree with Sam. Wherever it went, the U.S. capacity, it seems to me, was taken down by competitive pressures. European capacity was taken down by political decisions.

I am not sure I would like to go that way, and I have a feeling that is where you are leading us.

Mr. **Wolff**. I think that we have had a history now of 15 years of protection or more, the late 1960's to the present, maybe 17 years of protection. It is sort of intermittent. It is not in any way comprehensive. It has no restructuring commitments associated with it. It has no agreement on labor's contribution or their stake or job security, or what have you, in it, and we pull back from doing anything that might intervene in the market.

We are intervening in the market plenty. We are doing it, I would say, in an ill-informed way with very poor results.

Mr. **Frenzel**. I think that is the point Sam and I are trying to make.

Chairman **Gibbons**. I wouldn't want any more intervention.

Mr. **Frenzel**. I didn't even like the trigger price mechanism. It intruded less into the body economic, but it didn't do the job.

Mr. **Wolff**. It is not my place to ask questions, but just a rhetorical question.

Chairman **Gibbons**. We don't mind you asking questions. Go ahead.

Mr. **Wolff**. If you assume the truthfulness of the statement that foreign markets are generally not open and that they are achieving higher rates of capacity utilization by remaining shut——

Chairman **Gibbons**. That is a subsidy.

Mr. **Wolff**. Well not under U.S. law at this point.

Chairman **Gibbons**. Well, it ought to be. I am having a little trouble with Mr. Frenzel on that.

Mr. **Wolff**. According to this subcommittee, it is a subsidy.

Chairman **Gibbons**. According to 250 some votes in the House, 200 or 300 votes.

Mr. **Frenzel**. Everybody gets lucky sometimes.

Mr. WOLFF. What is the answer for these people? I don't think the answer is putting "for sale" signs up on the plants. That is what is occurring. I don't think that is a very good answer for the economy, and I don't think that is a good answer for the fabricators who testified this morning.

I suspect they would like to see a healthy steel industry in the United States too, and their interest would have to be taken fully into account in trying to get us through a very difficult period. But they are going to be faced now with 10 or 20 years of 100 cases a year, which they will consider. The foreigners will say "It is harassment." The domestic producers will say that that is interference in the marketplace, but that is the way we are headed.

Mr. FRENZEL. I think that is right.

One of our witnesses today said why not give the steel industry $7 billion a year? That is what protectionism is going to cost. Certainly the solution that the industry has put out for us is the most disruptive, most counterproductive, and injurious to relatively innocent parties all over the landscape, and if we are going to do protectionism, which you tell us we are going to do in any case, why don't we just write them a check?

Mr. WOLFF. Well, personally I am not all against that. I think that we are competing with heavily subsidized industries that the most modern; the continuous casting facilities that you were talking about earlier in Belgium were put up by a bankrupt firm. Now that is tough to do in this country. That is $1.5 billion pumped in by the Belgium Government in 1982 or 1983. They are planning three additional continuous casting facilities.

If you ask why our fellows are just too dumb to follow suit, they don't have that opportunity. It is not a good investment.

Mr. FRENZEL. I suppose, but we had enough testimony today to make us a little nervous about what is good investment and what is a well-run company and what is steel quality. If we were to do what the institute would like us to do, we would be taking an enormous risk with the economic fortunes of a whole country to support an industry which has not had that brilliant a record.

Again, I continue to believe that it isn't the industry's fault, but nevertheless, it is on the record. We are gambling some big ones on this, Alan, if we go forward with this quota scheme. It is going to disrupt our domestic economy. It is going to disrupt the world trading system. It is, according to CBO, not going to give the steel companies enough money to put themselves in shape.

We are not talking about the last 10 minutes, when it has been difficult or unremunerative to invest in steel capacity. We are talking about 30, 40, 50, 80 years.

Mr. WOLFF. Well, I know the chairman has said, you don't wake up one morning and find a glacier in your backyard, and that is true of the steel problem. You have heard a lot of testimony which I suspect the executive branch has not heard.

This isn't a partisan statement. The way we conduct trade policy is someone brings a case and we will decide that case.

That is what we are in business to do when we are in Government, and that means one type of product, plate or pipe or whatever, from one country, and you decide that case and go on about your business, and if nothing else is operating out there.

A lot of other things are operating out there, and I am sure that we are not making well-informed decisions. We are not making sensible trade policy, and we are not making sensible economic policy for the country, and I understand the reluctance of Government involvement in the process.

But, for example, the banks are still charging very high interest rates on developing country loans. Wouldn't one think that with a little executive branch leadership there might be the possibility—or someone's leadership—there might be the possibility of changing the interest rate and repayment formulas?

Government has a role to play. There is a catalyst at the minimum. The role it has in the trade area is to just close the borders. Does it get anything for that? We don't look. We are just not in the business of looking at that question.

I would like us to.

Mr. **Frenzel**. My problem with the solution again is that nobody around here minds begging their neighbor if their neighbor lives in a different country, because certainly we don't care who we abuse over there in the name of protecting a job or two here.

But when it becomes quite obvious through what I would say is rather convincing testimony that many of the neighbors we are begging are our own, then you have got to look at that solution and say, hey, folks, whatever we are doing to solve the problem, we shouldn't be doing this, that those neighbors are U.S. consumers. Those neighbors are U.S. manufacturers, converters of steel products.

I don't think we are looking at the solution. What we are getting from the Iron & Steel Institute is a statement of the problem and some kind of symbolic solution which I really question whether it has confidence in for the long haul. I guess for the current managers, whether they be union or ownership managers, this approach will probably get them through their watch alive, but I sure wish they would think about where we are going in the long run, rather than just tomorrow.

Mr. **Wolff**. I would agree with that. It is true of our system.

Mr. **Frenzel**. We are a short-range society.

Mr. **Wolff**. It is not just the steel companies. It is the Government that says whether there is a U.S. steel industry or not is not its business. With respect to what foreigners are doing, the U.S. Government says that if you can prove that the foreign practice is actionable under one of the little cubbyholes provided by our law, you bring a case; we will decide that case; and, then we will just forget about it.

I submit that is not adequate.

Mr. **Frenzel**. No, and we are all guilty of it. Long-range planning is past the next election, and what we are talking about here is likely to be preempted by a Presidential decision on the ITC case, and that decision may be the result of far-sighted planning and wise decisionmaking, but I suspect it will relate more to political factors that pertain here in the next couple of months. Perhaps you cannot change the system, but perhaps we can raise feeble voices to criticize and suggest the better ways.

Mr. **Wolff**. Thank you.

Mr. **Frenzel**. Thank you very much.

Chairman Gibbons. Thank you, sir.

Our concluding witness today is from the Sporting Goods Manufacturers Association, Maria Dennison.

Mr. Frenzel. Mr. Chairman, may I apologize to the witness for the fact that I must leave. I talked about all the political considerations. We have some of those in our State, too.

I have to leave you to handle this solo, if you will.

Chairman Gibbons. I am glad we don't have any of those in Florida.

Welcome.

STATEMENT OF MARIA E. DENNISON, DIRECTOR, WASHINGTON OPERATIONS, SPORTING GOODS MANUFACTURERS ASSOCIATION, ACCOMPANIED BY BART FISHER, COUNSEL, DIVERSIFIED PRODUCTS

Ms. Dennison. I would like to introduce Bart Fisher, who is counsel to Diversified Products, and with the law firm of Patton, Boggs & Blow, as DP is directly affected by what I am going to offer in my statement.

Thank you for providing the sporting goods manufacturers the opportunity to testify here today on how the trade problems of the U.S. specialty steel industry impact the competitive ability of sporting goods manufacturers.

At first glance, one might conjecture that our interest in the steel industry is related to production of sporting goods products. That assumption is half-right. Many sporting goods manufacturers depend upon the availability and price competitiveness of American steel in the manufacture of their product.

Our interest, though, in these hearings, extends beyond that concern to the entanglement of the U.S. sporting goods industry in the domestic steel industry's case for import relief.

On March 1, 1984, the U.S. sporting goods industry fell victim to the European retaliation aimed at the U.S. specialty steel industry for the higher tariffs and quotas imposed on their imports of specialty steel by the U.S. Government.

This counterretaliation directed to the U.S. sporting goods industry and imposed by the European Economic Community was induced by a dissatisfaction with the U.S. Government's offer of compensation which they viewed inadequate to redress the loss of market share that they suffered as a result of the restrictions imposed.

The ITC's determination that import penetration posed a serious threat of injury to the domestic specialty steel industry posed a sharp contrast to the expressions made by President Reagan at the Williamsburg summit that this country was certainly committed to trade liberalization.

As the Europeans found the ITC action in opposition to stated American policy, they acted to send a message to Washington that they did not look kindly toward U.S. trade decisions that satisfied short-term political election year interests.

Furthermore, with import relief petitions from the U.S. wine and footwear industries staring them in the face, they were more committed in their resolve to not accept the U.S. restrictions that were being laid down in front of them.

What is difficult to understand about the European Community's retaliatory action is why they picked on the U.S. sporting goods industry, which is completely extraneous to the interests of the U.S. specialty steel industry.

In our investigation of this question, one of the reasons that surfaced for the EEC retaliation against our industry was their familiarity with our industry's hardball stance when its ability to compete is restricted, vis-a-vis the aluminum bat issue and the case of Japan.

If this is true, then our predicament is even more dangerous than we had previously contemplated for the implication is that countries who disagree with our Government's policies of import relief are charting a course that has one U.S. industry working against the interests of another in its ability to generate attention and pressure on the U.S. Government for a satisfactory resolution of an issue, when the one industry has not even been involved in the issue.

This is not a situation that we want to find ourselves in. We have no desire to be used as a tool to fight someone's battle because of the perceived influence we are thought to have in the international arena or because it is a safe industry to pick on, given the diversity of the product in our industry and the range of retaliation that can be devised against it, without attacking the industry as a whole.

All of this discussion illustrates why the question of compensation under a 201 action deserves consideration as a major issue of international trade policy decisionmaking.

In today's chaotic international trade environment, it has become very important for Washington not to rely on the willingness of countries to negotiate away their export market share.

We can no longer afford, as a country, to maintain a simplistic try-and-see strategy as a substitute for a strong ultimatum approach that clearly let's our objectives be known.

The issue of negotiating compensation is one that needs to be viewed not only from the vantage point of the carrot being offered, but also from the perspective of the extent to which the opponent is motivated by what is at stake.

If we do not address the issue from this perspective, smaller industries will stand no chance in avoiding retaliation when another U.S. industry who is the very symbol of American strength, politically and economically with the American people, our elected officials and the media, decides it is in its interest to obtain shielding from imports under an escape-clause action.

It is imperative that our trade negotiators be motivated to consider the impact of their strategy on other segments of American industry; when working in the interest of one particular U.S. industry; because in trying to help that one U.S. industry, our negotiators could harm, under compensation, 10 others with a job loss greater than that of the industry seeking import relief, whether the loss be calculated in numbers or in impact.

The U.S. sporting goods industry, Mr. Chairman, suffers to lose more than $20 million in actual sales this year because of the EEC quota imposed on U.S. gymnastic and athletic equipment exports, skis, and guns.

The European quota set on U.S. exports of gymnastics, physical fitness equipment, exercise equipment, boxing equipment, track and field equipment, not counting skis and guns, after being readjusted to reflect 1983 values of trade, instead of the originally calcualted 1982 values of trade and 1982 currency exchanges, is established at $4.2 million.

In 1983, exports in the sporting goods market segment alone amounted to about $12 million. So you have over a $7 million differential there. The years 1984, 1985, and 1986 were to be banner years for the fastest growing segment of the U.S. sporting goods industry as the Olympic Games create a strong impetus for increased sales.

The fact that the Europeans' calculated retaliation also in the value of trade rather than in the volume of trade is even more devastating to our industry, who lose every day from fluctuating currency exchanges and the strength of the U.S. dollar abroad.

To date, also, no automatic mechanism has been set in place by the Europeans, for the lifting of a quota. It is almost a sure bet that the Europeans, in being provided with the opportunity to nurture their own domstic industry, will not let the floodgates be opened to American product after 4 years.

Another problem, created by the EEC retaliatory action, apart from the fact that large American producers used their share of quota that was allocated to them within the first 3 months of its being allocated, is that a European company has to apply for the quota for the American manufacturer.

This means that the American manufacturer has to expend large sums of money to create a legal entity in Europe to move his product.

Now, having made that commitment, the next logical step for U.S. manufacturers to take is to capitalize on their investment, and transfer their production out of the United States and into Europe to retain the market share that they have spent years and money developing.

This creates a further loss of U.S. industrial capacity and a further loss of American jobs. Those manufacturers who do not have the resources to transfer their capacity suffer even a greater burden because they risk losing their market share to the Taiwanese, the Europeans, the Japanese, and the Koreans, who in 4 years have themselves entrenched in that European marketplace.

In addition, given the rash of 201 petitions circulating this past year before the ITC and the legislation that is currently in front of the Congress, importers are no longer looking at the United States as a stable source of supply for product.

This attitude translates into a further deficit for our industry and for the U.S. economy as a whole. Finally, Mr. Chairman, there are two other problems rearing their head as a result of the EEC retaliatory action that are posing a problem to our industry.

The first is the disincentive to export that has been created by our Government's action in the specialty steel case. The U.S. sporting goods industry has played a dominant role in trying to develop foreign-market access for this country's goods.

While you were familiar with the Japan case, you may not know that our industry is the only one that has established a school to teach manufacturers how to export. Over the last year, we have placed more than 100 manufacturers through the program that is jointly sponsored by our association and International Trade Administration.

As an industry, our investment in developing an export capability has been substantial. Our exporting activities are the principal mechanism for helping reduce our $1.3 billion industry-trade deficit.

However, when our manufacturers see that U.S. trade policy, on the one hand, promotes them to export and then, on the other hand, decides to deny them that opportunity, they are very hesitant to make the commitment in terms of time and hiring of personnel that is needed to penetrate foreign markets across the world.

Last, the fact that American sporting goods product is denied entry into Europe is reason enough to spur unscrupulous companies overseas to counterfeit brand-name U.S. products for sale in the European marketplace.

In the 5 months that the quotas have been in place, we have seen increased cases of counterfeiting of U.S. gymnastic products, which are presently restricted in the European marketplace.

What can Congress do about the situation that I have outlined? First, it can request the administration to reopen negotiations with the Europeans on the specialty-steel-compensation package given, perhaps that the Europeans were trying to make a public relations point.

Second, they can request that USTR report to your committee the level of European specialty steel entering the U.S. market following the imposition of higher tariffs and quotas as a check on whether the amount of specialty steel coming in exceeds the level which the European Community calculated it would be able to ship into the States.

If it is, then the USTR could bring the EEC's retaliatory action against our product before the GATT showing excessive retaliation.

And as a final consideration, we would hope that the committee examine the ramifications of compensation under escape-clause actions on industries like ours and perhaps reexamine the statutory scope of the International Trade Commission's investigatory powers.

While I am not an international trade lawyer, I will take the liberty of making some procedural recommendations based on our industry's experiences with the specialty steel decision.

We feel that, namely, the President should consider conditioning import relief upon the presentation of an industry-adjustment plan. Two, that relief be provided in the form of self-destructing time-limited import charges rather than quantitative limits.

And three, which I think is very important to industries like ours, that a mechanism be developed whereby the Office of the U.S. Trade Representative has responsibility for notifying industries that they may be likely targets of foreign retaliation when first being made aware that a retaliatory response is being detailed by a trading partner, and that the USTR report to the Congress, the impact of a retaliatory response under 201 on the American industry that is not a party to the escape-clause action.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF MARIA E. DENNISON, DIRECTOR, WASHINGTON OPERATIONS, SPORTING GOODS MANUFACTURERS ASSOCIATION

Mr. Chairman. Thank you for providing the Sporting Goods Manufacturers Association (SGMA) with the opportunity to present Testimony today on how the trade problems of the U.S. specialty steel industry impact the competitive ability of U.S. sporting goods manufacturers.

As background, the SGMA speaks for $12 billion in manufacturer shipments or $18 billion at retail, which is approximately 80 percent of the sports equipment industry. The SGMA and its sister organizations under its umbrella represent approximately 3,900 athletic clothing, footwear and equipment manufacturers and distributors of sporting goods product in the United States, whose average sales are between $1 million and $25 million, with the larger companies doing business in this industry, for the most part, owned by larger conglomerates. My point: This is a small industry doing busines in small sub-segments, that is highly vulnerable.

At first glance, one might conjecture that our interest in the steel industry is related to the production of sporting goods equipment. That assumption is half right. Many sporting goods manufacturers depend upon the availability and price competitiveness of American steel in the manufacture of their product. However, our interest in these hearings extends beyond that concern to the entanglement of the U.S. sporting goods industy in the domestic steel industry's case for import relief.

On March 1, 1984, the U.S. sporting goods industry fell victim to European retaliation aimed at the U.S. specialty steel industry, for the higher tariffs and quotas imposed on their imports of specialty steel by the U.S. Government. This counter-retaliation imposed by the European Economic Community was induced by a dissatisfaction with the U.S. Government's offer of compensation, which they viewed inadequate to redress the loss of market share suffered as a result of restrictions placed upon their access to the U.S. market.

The ITC's determination that import penetration posed a serious threat of injury to the domestic specialty steel industry posed a sharp contrast to expressions made by President Reagan that the United States was committee to free market economics and trade liberalization, iterated only months before at the Williamsburg Summit. As the Europeans found the ITC action in opposition to stated American policy, they acted to send a message to Washington that they did not look kindly towards U.S. trade decisions that satisfied political election year interests, at the expense of their gross domestic product. Furthermore, with import relief petitions from the U.S. wine and footwear industries staring them in the face, they were more committed to their resolve to not accept the U.S. restrictions laying down.

What is difficult to understand about the EEC's decision to retaliate, however, is the reason they picked the U.S. sporting goods industry as their target for retaliation . . . an industry competely extraneous to specialty steel interests. In our investigation of this question, one of the reasons that surfaced for the EEC retaliation against our industry was their familiarity with our industry's hard-ball stance when its ability to compete is restricted.

If this is true, then our predicament is even more dangerous than previously contemplated, for the implication is that countries who disagree with our Government's policies of import relief are charting a course that has one U.S. industry working against the interests of another in its ability to generate attention and pressure on the U.S. Government for a satisfactory resolution of an issue, that was extraneous to them in the first place. This is not a situation we want to find ourselves in. We have no desire to be used as a tool to fight someone else's battle because of the perceived influence we are thought to have in the international trade arena and because it is a safe industry to "pick on", given the diversity of product within our industry and the range of retaliation that can be devised against it, without attacking the industry as a whole. All of this discussion illustrates why the question of compensation under a "201" action deserves consideration as a major issue of international trade policy decisionmaking.

In today's chaotic, international trade environment, it has become very important for Washington not to rely on the willingness of countries to negotiate away their export marketshare. We can no longer afford as a country to maintain a simplistic "try and see" strategy, as a substitute for a strong, ultimatum approach that clearly lets our objectives be known. The issue of negotiating compensation is one that needs to be viewed not only from the vantage point of the carrot being offered, but also from the perspective of the extent to which the opponent is motivated by what's at stake.

If we do not address the issue from this perspective, smaller industries will stand no chance in avoiding retaliation, when another U.S. industry, who is the very symbol of American strength, politically and economically, with the American people, its elected officials and the media, decides it is in its interests to obtain shielding from imports under an "escape clause" action. It is imperative that our trade negotiators be motivated to consider the impact of their strategy on other segments of American industry when working in the interests of a specific U.S. industry. In trying to help one domestic industry, they could harm 10 others, with the job loss greater than that of the industry seeking import relief, whether the loss be calculated in numbers or impact.

The U.S. sporting goods industry, Mr. Chairman, suffers to lose more than $20 million in actual sales this year, because of the EEC quota imposed on U.S. gymnastic and athletic equipment exports, skis, and guns. The European quota set on U.S. exports of gymnastics, physical exercise equipment, track and field and boxing equipment, after being readjusted to reflect 1983 values of trade, rather than the trade based on 1982 statistics and 1982 currency exchanges, is established at $4.2 million this year. In 1983, exports in this sporting goods market segment alone, amounted to about $12 million. The years 1984, 1985, and 1986 were to be banner years for this fastest growing segment of the U.S. sporting goods industry, as the Olympic Games create a strong impetus for increased sales. The fact that the Europeans calculated retaliation in value of trade, rather than volume of trade, is even more devastating to our industry, who lose every day from the fluctuating currencies and the strength of the U.S. dollar abroad.

To date, no automatic mechanism has been set in place by the Europeans for the lifting of quota. It is almost a sure bet that the Europeans, in being provided with the opportunity to nurture their own domestic sporting goods industry, will not let the floodgates be opened to American product at the end of 4 years.

Another problem created by the EEC retaliatory action, apart from the fact that large American producers used their share of quota within the first 3 months of being allocated it, is that a European company has to apply for the quota for the American manufacturer. This means that the American manufacturer has to create a legal entity in Europe to move his product. Having made that commitment, the next logical step for U.S. manufacturers to take is to capitalize on their investment and transfer production out of the United States and into Europe to retain market share they've spent years and money developing. This creates a further loss of U.S. industrial capacity and American jobs. Those manufacturers who do not have the resources to transfer production, bear a severe risk in losing their market share to the Taiwanese, Korean, and Japanese producers, who in 4 years, will have entrenched themselves into the European marketplace.

In addition, given the rash of "201" petitions circulating this past year before the ITC and the protectionistic legislation currently before the Congress, importers are no longer looking at the United States as a stable source of supply. This attitude translates into a further deficit for our industry's balance of trade as well as a further loss of American jobs because of lack of demand for American product.

Finally, Mr. Chairman, there are two other problems rearing their head as a result of the EEC retaliation. The first is the disincentive to export that has been created by our Government's action in the specialty steel case.

The U.S. sporting goods industry has played a dominant role in trying to develop foreign market access for this country's goods. While you are familiar with our trade battle with Japan, vis-a-vis the aluminum bat issue, you may not know that ours is the only manufacturing trade association that has established a school to teach manufacturers how to export. Over the last year, we have placed 100 manufacturers through the program that is jointly sponsored by our association and the International Trade Administration. As an industry, our investment in developing an export capability has been substantial, from the creation of the International Marketing Institute for Sports and participation in international trade fairs, to the formation of a Recreational Industry Council on Exporting, which works with the Department of Commerce, in showcasing American products around the world and developing market research profiles of countries that are good targets for U.S. sporting goods exports.

Our exporting activities are the principal mechanism for helping reduce our $1.3 billion industry trade deficit. However, when our manufacturers see that U.S. trade policy, on one hand, promotes exports, and then on the other, denies that opportunity, they become hesitant in maintaining the investment commitment needed to successfully penetrate foreign markets and regain lost industry dominance in the international arena.

Lastly, the fact, that American sporting product is denied entry into Europe is reason enough to spur unscrupulous companies overseas to counterfeit brand-name U.S. product and profit from American misfortune, while destroying the reputation of American companies who are powerless to protect themselves. In the 5 months the quotas have been in effect, we are already seeing increasing evidence of this problem in the European marketplace.

We've testified before your committee when presenting our views on GSP renewal legislation that international counterfeiting is already costing American athletic clothing, footwear and equipment manufacturers $1 billion in lost sales.

What can the Congress do about the situation I've outlined here? First, it can request the administration to reopen negotiations with the Europeans on the specialty steel compensation package. Second, request that USTR report to the committee the level of European steel entering the U.S. market following the imposition of higher tariffs and quotas, as a check on whether the amount of specialty steel coming in, exceeds the level which the European Community calculated it would be able to ship into the states under the higher tariffs and quotas. If it is, then the USTR could bring the EEC's retaliatory action against our product before the GATT, showing excessive retaliation.

And as a final consideration, we would hope that the committee examine the ramifications of the compensation issue under "escape clause" actions on industries like ours, and perhaps reexamine the statutory scope of the International Trade Commission's investigatory powers. While I am not an international trade lawyer, I will take the liberty of making some procedural recommendations, based on our industry's experiences with the specialty steel outcome, namely that:

(1) The President condition import relief upon the presentation of an industry adjustment plan;

(2) That relief be provided in the form of self-destructing time-limited import changes, rather than quantitative restrictions; and,

(3) That a mechanism be developed whereby the Office of the USTR has responsibility for notifying industries that they may be likely targets for foreign retaliation, when being first made aware that a retaliatory response is being negotiated by a trading partner.

(3) And that USTR report to Congress, the impact of a retaliatory response on an American industry, not a party to an "escape clause" action.

Thank you, Mr. Chairman for providing me with the opportunity to share our industry's experiences as they relate to the specialty steel industry's case for import relief of last year. I would be happy to answer any questions you or members of the committee may have.

Chairman GIBBONS. You have made some excellent suggestions there. You brought home clearly that whenever we act under escape clause actions, or whenever we act outside of the GATT, in order to protect one segment of the American economy, we automatically injure somebody else.

Here is one case on point: specialty steel; namely, stainless steel and tool steel. The people who must pay the penalty are the people who are working and have their investment in the sporting goods industry.

It is utterly ridiculous.

Ms. DENNISON. Mr. Chairman, we are not an industry like the chemical industry that has been very internationalized. We are a small industry made up of small subsegments.

Chairman GIBBONS. And very innovative and very entrepreneurial and very American.

Ms. DENNISON. I think that was part of the reason the Europeans made their decision to retaliate, the Olympics, the publicity. It brings pressure and attention to their particular case.

Chairman GIBBONS. Well, I am going to ask the staff to follow up, and I will follow up with their assistance, and your assistance, with the USTR on the suggestions you have made there, and perhaps we can have some hearings in that area to see if something can be done.

Mr. FISHER. Mr. Chairman, we need your help on this because we would really like to unravel this issue that started with the specialty steel case, and that ended up with us being hurt. We believe that the U.S. Government should take the EC to the GATT for having excessively retaliated against the United States, but rather than do that, we would just like to have the case settled.

Chairman GIBBONS. I realize by the time you get anything settled in GATT——

Ms. DENNISON. We have lost the market share.

Chairman GIBBONS. We are all dead.

Mr. FISHER. We think the USTR gave up a little to easily on this compensation issue, and we would like to see them back at the bargaining table to settle this problem.

Chairman GIBBONS. I am sorry this lesson was at your expense, but I hope it taught them that this kind of bowing to political pressure from one segment of the American economy is going to cost them problems in another sector of the American economy.

That is all it was.

Ms. DENNISON. I would hope that it would, but I have my doubts.

Chairman GIBBONS. You know, one of the basic laws, for every action, there is an equal and opposite reaction, we just don't understand that, but it still works and you, unfortunately, are the victim of the opposite reaction.

Ms. DENNISON. Apart from whatever the decision is that does happen out of this particular case, there is something that is very important to our industry that we would hope would be looked at, and that is how information is relayed.

It took us practically 3 months to find out exactly which product was going to be retaliated against. They had said gymnastics and athletic products. You know there is a broad range of athletic products.

There is tennis equipment, golf equipment, archery equipment, and we couldn't get any answers. Before we knew it, we found out that the quotas were in effect, and no one had told us what the system was to try and get the quotas allocated to you, and the burden was laid, really, on the American manufacturer, who was totally innocent to these particular dealings. He has been forced to carry his own water.

Chairman GIBBONS. You had nothing in the world to do with stainless steel?

Ms. DENNISON. No.

Chairman GIBBONS. They grabbed you as a hostage, the stainless steel people. They didn't even realize they were grabbing you. They just wanted some protection for their industry.

Mr. FISHER. That is right.

Ms. DENNISON. And when you operate under 201, somebody is going to——

Chairman GIBBONS. I imagine they probably displaced more workers in your industry than saved jobs in the other industries, I would imagine.

Ms. **Dennison**. The physical equipment segment of the industry is the fastest growing, so it had the most opportunity to have dominance in the world market. That is where the loss of American jobs is really going to be felt, especially by those that aren't going to be created, because the product can't get into the second largest market of the U.S. sporting goods industry, which is Europe.

Chairman **Gibbons**. I will use your case as an illustration of some of my points. I appreciate it. I am sorry it had to happen. We go around here and say retaliation is real and everybody says no, retaliation isn't real, it is just some imaginary concept.

I am going to bring them by to see you.

Ms. **Dennison**. I would be delighted to have them.

Chairman **Gibbons**. Interested parties who want to submit statements for the record are reminded that the hearing record will close on Friday, August 10, and that all submissions for the record should be received by close of business on that day.

This concludes today's hearings on problems in steel industry competitiveness and the legislative proposal to impose steel import quotas. The subcommittee thanks all witnesses who participated in today's hearings, and during this entire series of hearings.

Let me say that more questions have been raised than questions have been answered. While this concludes this set of hearings, the Chair intends to go back and to ask some of these people who are using steel to sit down across the table and have the suppliers and the users be able to cross-examine each other to find out where the truth in all of this is.

We are going to have to take a look at some of the other issues raised as well, suggestions have been made that there ought to be a better industrial policy than is incorporated in this legislation and that should be thoroughly considered, and that is very interesting to me.

Perhaps I will take some testimony in that area, but this concludes the steel hearings for now.

Ms. **Dennison**. Thank you, Mr. Chairman.

Mr. **Fisher**. Thank you.

[Whereupon, at 2:05 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement of the American Federation of Labor and Congress of Industrial Organizations

Mr. Chairman, the AFL-CIO strongly supports H.R. 5081, the Fair Trade in Steel Act of 1984. This legislation will establish quantitative restrictions on steel imports of approximately 15 percent of apparent domestic supply for a period of five years while requiring the industry to utilize substantially all cash flow from the steel sector for reinvestment in, and modernization of that sector. In addition, it would limit the importation of iron ore and require the government to carefully monitor and, if necessary, restrict the importation of fabricated steel mill products.

This bill, if enacted will allow the industry and its workers the time they need to appropriately revitalize this basic industry. They have already shown their willingness to make a start, but they need enough time to finish their modernization activities. They have already begun to improve efficiency, lower costs, and modernize production facilities. If Congress fails to act, thousands more workers will join their brothers and sisters on the unemployment line, already depressed communities and regions will suffer additional and perhaps fatal harm, and the strength of the United States as a whole will be endangered. This industry is central to the nation's economic well being and national security.

The existence of serious injury to the steel industry and its workers is evident, and clearly imports are a substantial cause of this injury.

The impact of imports on the domestic economy of the United States has been devastating. Once thriving steel communities have become virtual ghost towns, as plant after plant has shut down. The litany of cities and towns suffering this economic devastation has become an all too familiar item in the nation's press, and now serves as a metaphor for the deindustrialization of the United States. In 1983 alone, the industry's production capability, overwhelmed by imports was reduced by more than 14 million tons. These plant closures have created tremendous hardship for thousands of once proud, productive men and women. These workers, who have spent their lives in an industry that has literally built America are not comforted by explanations that try to brush under the table the real damage from imports.

Employment in the steel industry is down by more than 200,000 since 1977. Even a number this large cannot describe the human and social costs associated with joblessness. High unemployment raises death rates and infant mortality. It increases the incidence of cardiovascular and kidney diseases, cirrhosis of the liver, suicides, homicides, admissions to mental hospitals, child abuse, family breakdowns, drug addiction, crime, and imprisonment. The National Council on Economic Opportunity has examined these issues in detail and noted, "losing a job can set in motion a vicious cycle of other personal catastrophes that are much more difficult to handle for people who lack both the material and the emotional resources that a decent, stable job provides."

Ten years ago imports made up 13.4 percent of the U.S. market. Today, import penetration exceeds 25 percent. During this time, ample evidence of specific unfair trade practices, such as government subsidy of this industry abroad and the dumping of steel products in the United States led to various partial and short-term responses in the form of countervailing and anti-dumping duties, orderly market and voluntary restraint agreements, and the establishment of policies like the trigger-price mechanism. These measures were inadequate and can only be described as ad hoc trade policy. As problems were solved in one product line or geographic area, they immediately appeared elsewhere. For example, as the U.S. market share in steel for Japan and the European Community declined in 1983 due to voluntary restraint in the first case, and a negotiated agreement in the second, imports from the developing world shot up dramatically. Led by South Korea and Brazil, imports from developing countries increased from four million tons in 1982, to 6.3 million tons last year. In 1983, shipments from the developing world represented 7.6 percent of the domestic market. It is virtually impossible to effectively cope with this kind of situation on a product-by-product or country-by-country basis.

The steelmaking facilities in most other nations are either government-owned or government-supported. In the European Community, policies are in place governing production, price, imports, and capacity. Their current program of restructuring is taking place with the clear and positive assistance of the governments involved.

In the developing world, the continuing expansion of steelmaking capacity, in no way related to their own needs, is directed by governments and supported by favorable financing terms.

The United States, by relying on the illusory free market, and failing to adopt a coherent steel policy of its own is victimized by these foreign government directed steel policies.

The capability to produce steel is central to the strength of the United States. From both a national security and overall economic perspective, steel production provides the necessary foundation for a strong and growing America. There must be careful consideration concerning the degree the United States allows itself to become dependent on foreign production. If steps are not immediately taken, the dismantling of the steel industry will accelerate, and the United States, by default, will be at the mercy of foreign suppliers.

H.R. 5081 recognizes the realities of international trade in steel products, and provides a positive solution for U.S. workers and industry. It is an appropriate way to restore and strengthen the industrial base of our country. The workers in this industry are not seeking special favors. They are only seeking hard work. H.R. 5081 would give them that opportunity.

STATEMENT OF DR. PAUL W. MARSHALL, PRESIDENT, MARSHALL BARTLETT, INC., ON BEHALF OF THE AMERICAN IRON & STEEL INSTITUTE

INTRODUCTION

My name is Paul W. Marshall. I am President of Marshall Bartlett, Incorporated, a Management and Economic Consulting firm located in Lexington, Massachusetts. Before becoming a full-time consultant I was on the faculty of the Harvard Graduate School of Business Administration where my primary teaching and research interests were in the area of Production and Operations Management with particular emphasis on the Steel Industry. I have worked on many projects for American and Foreign Steel producers and for various agencies of the United States Government. In 1975 I was a consultant to the Council on Wage and Price Stability and prepared a report on the conditions of the U.S. Steel Industry. In 1977 and 1978 I, along with others, prepared two reports for the American Iron and Steel Institute on the economic implications of Foreign Steel Trade for the American Economy. In 1977 I worked for the Ecumenical Coalition of Youngstown and assisted in their efforts to reopen the Campbell Steel Works. I was invited to the White House Meeting in October 1977 to discuss the crisis facing the American Steel Industry. In February 1980 I was a panel member at the OECD Symposium on the Future of the World Steel Industry. I have prepared major studies for the U.S. Environmental Protection Agency and the Department of Energy analyzing the impact of regulation on the American Steel Industry.

I have testified before the International Trade Commission on matters relating to competition in the Western United States Steel market and matters relating to the Specialty Steel Industry. I have also testified before the House Ways and Means Committee's subcommittee on Trade and the House Committee on

Energy and Commerce subcommittee on Oversight and Investigation on matters relating to the American Steel Industry.

Much of my testimony today is based on a study my firm prepared and submitted to the International Trade Commission in their current Investigation relating to Carbon and Certain Alloy Steel products. I presented testimony based on this study before the Commission on May 9, 1984 on behalf of Bethlehem Steel Corporation and the United Steel Workers of America.

Our study treated the steel industry as a single industry and relied on data representing an aggregation of individual steel products. The major reason is that up to the semi-finished stage, steel is in fact a single product. It is generally true that most of the investment is required and most of the expenses are incurred for this portion of processing. In addition, we demonstrated that foreign producers' steel exports to the U.S. can best be explained by analyzing their production in aggregate. Their desire to maintain operating rates at the raw steel level causes foreign producers to shift final production into different products at different times. However, the basic force behind these decisions is the amount of raw steel capacity to be utilized. Such behavior requires that any careful analysis view the industry as a single entity.

In this introduction I would like to briefly summarize our conclusions and provide several general statements concerning the current steel crisis. In later sections of my statement more details from this study will be presented.

Let me briefly summarize the major points of our study.

1. Steel imports as a share of the U.S. market are primarily driven by the amount of excess capacity outside the U.S. at any point in time. This is

consistent with the desires of foreign producers to stabilize their operating rates.

2. Market forces in the U.S. are not the primary influence on the flow of imports. This is because the economies of the world are linked in their cyclical behavior.

3. The net result of these supply and demand factors is that steel imports' share of our market is countercyclical and increases the cyclical swing faced by domestic producers. Such behavior is injurious not only to steel producers, but in the long run to the entire economy.

4. Imports have taken 21.9 m. tons of shipments from domestic producers from 1977-1983. This measure assumes that an appropriate level of imports would be 15% share of the domestic market. This reference share for measuring loss is based on the approximate share of the U.S. market taken by imports during the 1970's which was about 15%.

5. These excess imports have cost the industry $2.6 billion in lost profits and have conservatively cost employees $2.4 billion in lost wages as jobs have been eliminated.

6. Severe price suppression by imports in 1982-83 cost the industry over $8.0 billion in lost profits.

7. A model of import behavior we developed suggests that continued excess capacity in the world will drive import share to higher levels in the 1980's, exceeding 25%.

The American Steel market is currently in a serious state of disequilibrium. This has resulted because many foreign producers have capacity far in excess of their home market needs. It is natural for them to want to increase their volume by exporting. If the entire world steel market were open and available to them we would not need to be here today. Under free market conditions this excess capacity would be used to supply steel at a world price and the most inefficient producers in the world would be driven out of business. A lower capacity level would result and the remaining steel producers could operate profitably.

Unfortunately there is not a free open world steel market. Two major categories of distortions are currently present in the market. First, many countries limit their home steel markets to imports from other countries and secondly, many governments are willing to subsidize the losses of their domestic producers when they export steel at levels below their production costs. The result is that import prices to the U.S. are well below any equilibrium level that would exist in a free market and many producers more inefficient than U.S. companies are kept in business and continue to supply steel.

During the last decade, the U.S. government has not effectively dealt with these unfair trading practices and market distortions. It has hoped they would go away. What has been done by our government has been only in response to numerous unfair trade cases filed by American companies. Given the nature of our laws such cases can address only specific countries and specific products. Such a piece meal response is not only costly but it is ineffective.

In summary I would make the following observations:

(1) There is an excess of steel capacity in the world

that will continue for the next five to ten years.

(2) Because of government interferences with market forces, particularly in Europe, the least efficient producers have not gone out of business.

(3) Steel imports, priced at unrealistically low prices, have been sent to the United States by these less efficient producers as well as by other more efficient foreign producers causing serious injury to American production.

(4) The American steel industry has been unable to reduce its costs to compete successfully with these imports. This is true even with concessions made in wages and benefits by American steel workers.

(5) The U.S. government has been ineffective in developing and implementing a policy to counteract the unfair trading practices of foreign steel products in the U.S.

(6) American steel producers are reducing their steelmaking capacity and diversifying into other businesses.

I believe these trends will continue without a new governmental policy. Thus, we will continue to see a shrinking of the American steel industry. Many analysts argue this is the natural consequence of market forces and that the American steel producers should not complain, but rather get on with their business. I do not agree that this situation has evolved from market forces. However, I do agree that individual steel companies will get on with their business -- namely reducing their commitment to steel and moving their investments into other areas if there is no change in government policy.

Unfortunately, there still remains a problem. Specifically, the United States will become increasingly dependent on foreign sources for steel and there will be significant regional unemployment in areas where much of the marginal American steel capacity now exists.

These are problems for the U.S. government. During the past five years many government agencies and Congressional committees have studied the steel industry as though the problem was that of the industry. I submit the individual companies who produce steel are solving "their problem." They are reducing capacity and moving into other businesses. It is now time for the government to look at "its problem:" namely, whether or not we can develop a rational, stable policy for the steel industry. I believe the enactment of the quota bill, now before the Congress would be a good first step in helping establish such a policy.

SUMMARY OF MARSHALL BARTLETT STUDY

I. THEORY OF STEEL IMPORT BEHAVIOR

Imports of steel products have been the subject of public policy debate for over fifteen years. Beginning with the Voluntary Restraint Agreements in 1969, the U.S. government has implemented various programs to deal with the steel import problem. Since then, a series of formal and informal policies have attempted to control import volume, share of market, or price. All of these policies have been designed to provide relief to domestic steel producers from injury caused by imports.

The financial performance of the steel industry suggests that government policies have not been effective. The industry has lost some $6 billion in the last two years while imports have surged to record levels in early 1984. These imports have caused substantial injury to the domestic industry by reducing its market share and suppressing prices.

It is useful to understand how steel imports play such an important role in the U.S. market. The objective of this section is to develop a theory which can explain the historic pattern of imports' share of the U.S. steel market.

Background

There are two general theories that have been used to explain the behavior of steel imports into the United States. One theory can be called the "Demand Pull" theory. This theory is based on the premise that the steel requirement of all domestic industry exceeds the amount that the domestic steel mills can produce at a reasonable price. A reasonable price level is one which is consistent with efficient worldwide steelmaking costs. Under this theory, foreign producers act as "swing" suppliers; i.e., as market demand increases, import levels and share of market increase, and vice versa. The major determinant of import behavior is therefore market demand. As demand increases, new efficient supply is created.

The alternate theory for explaining U.S. steel imports can be called the "Supply Push" theory. This theory argues that steel is sent to the U.S. by foreign producers for many reasons, both economic and non-economic. In particular, foreign manufacturers use the U.S. market to absorb their unused capacity, in order to maintain politically acceptable employment levels or to cover high fixed costs in addition to employment costs. Increasingly, some of these producers are also motivated to generate foreign exchange to help repay large dollar denominated debts. This theory suggests that the dominant factor in explaining U.S. imports is the excess capacity of foreign steel producers not met by their home country and non-U.S. export demand. When there is excess capacity, a foreign producer will reduce the export price for its product until a sufficient export demand is generated to bring production up to an acceptable level. In general, this volume target for foreign producers is achieved at the expense of domestic producers in the U.S. market, since the total consumption of steel is relatively insensitive to price changes in the short run. Thus, under this theory, the U.S. export price for foreign producers is influenced to a significant degree by their estimate of the level of capacity utilization that would result without exports to the U.S. In short, export price is determined by excess supply.

No single theory can completely and perfectly explain behavior as complex as that of steel trade; clearly, there will be some influence from both the demand and supply side in any trade situation. However, it is a useful exercise to see which, if either, of these theories can give meaningful insight to the behavior that has taken place over the past twenty years.

First, it is important to understand the implication for imports' share of the U.S. market under these two theories. The demand pull theory would result in some variability in total imports, in coordination with swings in total demand. As a swing supplier, import levels and share of market would tend to increase as overall demand for steel increased, and vice versa. Market price levels would be expected to reflect steelmaking costs, and therefore be relatively stable over time.

The supply push theory results in a highly variable share of market for imports. Imports into the U.S. would be a function of the capacity utilization level outside the U.S. As foreign capacity utilization rose because of increases in home market demand, the supply for export would be held constant or decreased. If at the same time U.S. demand was increasing, imports' share of the U.S. market would drop rapidly. On the other hand, if foreign producers were experiencing low capacity utilization rates, the supply for export would tend to increase. If the U.S. was experiencing a coincident decline in economic activity, and thus lower steel demand, imports' share of market would increase rapidly. These changes in share of market would be accomplished through changes in export prices. Thus the supply push theory would argue that export price is also highly variable and is primarily established by supply conditions. As these utilization rates tended to fall, the price of exported steel would be lowered to obtain an increased share of U.S. market.[1] Thus in summary, under the supply push theory of export behavior, one would expect high variability in imports' share of the U.S. steel market and positive correlation between export price and foreign utilization rates.

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[1] One important feature of the supply push theory is that often this export price is not available to home market (Footnote Continued)

These two theories can be analyzed with respect to foreign producers' historic behavior in the U.S. steel market, which is shown in Exhibit I-1. As the U.S. market grew throughout the 1960's, imports captured an increasing share of the market. This is consistent with demand pull behavior, since the U.S. market was expanding and, with a few exceptions, imports' share of market was rising steadily. It should also be noted that this behavior is also consistent with supply push, since without exports to the U.S., the excess capacity of foreign producers was also steadily increasing.

In order to clarify the situation, one must look ahead into the 1970's and 1980's. As Exhibit I-1 again shows, imports' share of market fell dramatically in 1973-1974. This decline corresponded with a period in which U.S. consumption reached an all-time high. It was also a period in which foreign producers reduced their total exports substantially, which is consistent with the supply push theory. Following this drop in participation from about 18 percent to under 12 percent of the market, imports rebounded back to 19 percent of the U.S. market in 1977. Simultaneously, world demand had dropped and exporters were increasing their total exports, again consistent with the supply push theory. Imports' share fell again in 1979, as world production rose rapidly over

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(Footnote Continued)
consumers of the same product. Because of this ability to price discriminate between home and export markets, the magnitude of export price changes is much greater than would be possible under more competitive market conditions. In turn, this potential for larger price variability in the export markets greatly enhances the exporter's change of obtaining an increased market share of another country's market.

1977-1978 levels. Since 1979, imports have been steadily increasing while world demand has been steadily declining. Thus, a general review of the actions of foreign suppliers in the U.S. market during the 1970's and 1980's would lead to the conclusion that the supply push theory explains foreign steel export behavior more appropriately than does the demand pull theory.

Description of the Domestic Steel Market

Based on the foregoing discussion, a theoretical model of the domestic steel market has been developed which describes the supply and demand forces which result in the following observations about the steel market:

- The imports' share of market has exhibited an overall increase in the last two decades.

- In periods of peak world demand, imports' share of the domestic market falls.

- Apparent consumption of steel mill products is highly cyclical in nature, exhibiting little trend growth.

The framework which explains these phenomena consists of a description of the behavior of the major players in the market: the domestic consumers, the domestic steel suppliers and foreign steel suppliers.

The demand for most steel mill products can be described as derived demand, since it is based on the needs of other industries, rather than the final consumer. For the most part, the cost of steel as a percent of the final consumer product is fairly small. Conversion to alternate materials is often a costly process for steel consumers. For these reasons, it is unlikely that the short run demand for steel is significantly impacted by its cost; that is, steel demand is price inelastic in the short run. This is consistent with the observation of very high prices in peak demand periods, and very little demand response to extremely low prices in the last two years. This is not to say that the demand for steel from individual producers is not sensitive to their pricing strategy. Steel companies can significantly affect their market share through price changes, as foreign producers have demonstrated. In aggregate, however, total market demand is not substantially impacted by market price changes.

A final observation concerning the demand for steel products is that steel consumption is increasing at a slower rate than that of the general economy; i.e., industries consuming steel are growing more slowly than other industries and also are substituting lighter, less energy intensive products for steel. The U.S. economy is becoming less steel intensive.

In summary, steel demand can be modelled as being positively correlated to consuming industry behavior and general economic performance, and negatively correlated to a time trend and, to a small extent, market price.

Domestic suppliers of steel can be described as traditional competitive suppliers. The competitive nature of domestic suppliers has been heightened by the increases in minimill producers and in imports. Domestic steel suppliers respond to two factors in determining their level of supply. As steel prices increase, steel producers can bring on less efficient facilities and increase supply. This is consistent with the traditional economic theory of a positive relationship between supply and price. On the other hand, steel producers will reduce their supply (at a given price level) if their variable costs increase. Domestic steel supply can therefore be modelled as positively influenced by market price and negatively influenced by domestic variable costs.

Foreign steel producers, on the other hand, cannot be described as traditional competitive suppliers. Many foreign steel producers are heavily subsidized by their governments, or are wholly owned by the state. Because of the nature of the management structure, profits are often sacrificed to maintain politically acceptable employment levels. This is true for most integrated steel producers in Europe and for many in the developing nations. The goal of these producers is to maintain as high an operating rate in the steel mills as possible, to maintain employment levels, generate foreign exchange and stabilize national politics. Because the U.S. is the only market which is relatively accessible to these producers, it is the obvious destination for production above domestic needs. Import supply from these countries could therefore be modelled simply as negatively related to their steel mill operating rates (excluding exports to the U.S.).

Market price levels are established at the equilibrium position of market demand and import and domestic supply behavior. Although quality and delivery terms affect the relative attractiveness of steel suppliers, prices for imported and domestic steel are highly correlated. Statistical analysis shows a significant negative correlation between the ratio of import price to domestic price and excess foreign capacity, suggesting that the foreign producers' pricing strategy is consistent with the supply push theory.

Historical Estimation

A model of steel import behavior was specified by econometrically estimating supply and demand functions simultaneously, using all the variables described above in one equation. The analysis suggests the following statistically significant relationship between import levels and these variables:

- Non-U.S. Operating Rate - A statistically significant negative correlation confirms the theory that import share increases with a decline in world operating rate. This supports the supply push theory of import behavior.[2]

- Trend - A statistically significant positive correlation confirms the theory that there is a growing acceptance of steel imports by consumers.

- Apparent Consumption - A significant positive relationship demonstrates that imports behave, to some extent, as swing suppliers, supporting the demand pull theory. The overall impact of this parameter on import share is less than the non-U.S. operating rate, however.

- Strike Hedge - A significant positive relationship demonstrates that historically hedge buying in contract negotiation years impacted import share.

A graph of estimated versus actual import share values is displayed in Exhibit I-2. The exhibit indicates graphically that the model describes historic import behavior with reasonable accuracy.

Having estimated the model it is important to analyze the interaction of the apparent consumption and non-U.S. operating rate variables to make conclusions about the alternate theories of import behavior. In order to illustrate the sensitivity of imports and import share of market to changing conditions, the following example was evaluated. A base case was defined as 24 million tons of quarterly apparent consumption and a non-U.S. world operating rate of 75 percent. Exhibit I-3 shows the effect of increasing each variable by 10 percent separately and of increasing both by 10 percent simultaneously.

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[2] It is important to note that this operating rate is calculated by excluding exports to the U.S. If U.S. exports are included, then the operating rate loses its explanatory power. Obviously if the strategy to export in order to stabilize operating rates is successful, there will be little correlation between the resulting actual operating rate and other factors.

If consumption increases 10 percent with no change in non-U.S. operating rate, then imports increase 15.8 percent. However, because of the increased consumption the share of market only increases 5.3 percent. If non-U.S. operating rate increases 10 percent, then imports fall 9.8 percent below the base case, and since consumption is unchanged, the share of market for imports also decreases by 9.8 percent. In general, however, U.S. consumption and non-U.S. operating rate change at the same time, and over the long run they move together since economies throughout the world are closely linked. Therefore, it is necessary to see what happens when both variables change.

Returning to Exhibit I-3, it can be seen that with a 10 percent increase in both variables, imports increase by 4.5 percent, and thus they supply some of the increased demand. However, the share of market for imports falls about 5 percent in this case. Thus, when demand is on the upswing, imports are not available to provide a constant share and withdraw in a relative way from the market. This unreliability of supply is only consistent with the supply push theory, because the demand pull theory would suggest an increase in supply to service the growing U.S. market.

This simple example illustrates the major problem for the U.S. steel producers when they plan their future to respond to imports. Assuming that the U.S. and other economies in the world move in a parallel or linked manner, then as demand increases imports are available to provide a smaller share of the market. Thus the upswing is magnified for domestic producers. A similar pattern but in an opposite direction happens in a downturn. As economic activity declines, imports come into the market to provide an expanded share. Thus, the decline in demand for domestic producers is also magnified.

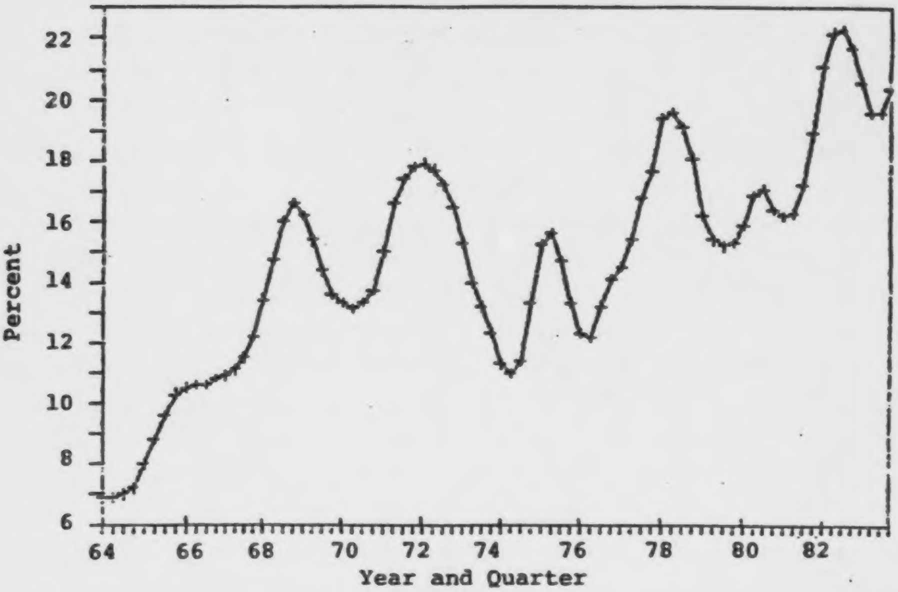
This countercyclical behavior on the part of imports increases the magnitude of the swings in demand faced by domestic producers. This is translated into greater uncertainty and thus greater risk. Increasing the risk of an industry will increase the cost of borrowing funds and attracting equity investment. The net result is a justified unwillingness on the part of domestic producers to expand their capability to produce steel. In fact it can be argued that this increasing risk has been a major factor in the reduction of steelmaking capacity in the U.S.

The implication of the supply push behavior of imports is clear for the government. The market acting alone will not assure a reliable supply of low-cost steel. Thus it is necessary for any intervention to focus on a method for assuring the U.S. consumer of steel will have a reliable supply of steel at the lowest cost possible consistent with this reliability.

In summary, this chapter has discussed two theories of import behavior "demand pull" and "supply push". It has been shown that at a minimum, during periods when U.S. consumption and non-U.S. operating rate are moving in the same directions the best explanatory theory is "supply push". This means that imports behave in a countercyclical manner and greatly increase the risk for the domestic producers. The injury resulting from this behavior is the topic of the next two sections.

EXHIBIT I-1

IMPORT SHARE OF DOMESTIC APPARENT CONSUMPTION*



*Four-quarter moving average.

Source: Department of Commerce data

EXHIBIT I-2

QUARTERLY STEEL IMPORTS, ACTUAL VS. ESTIMATED

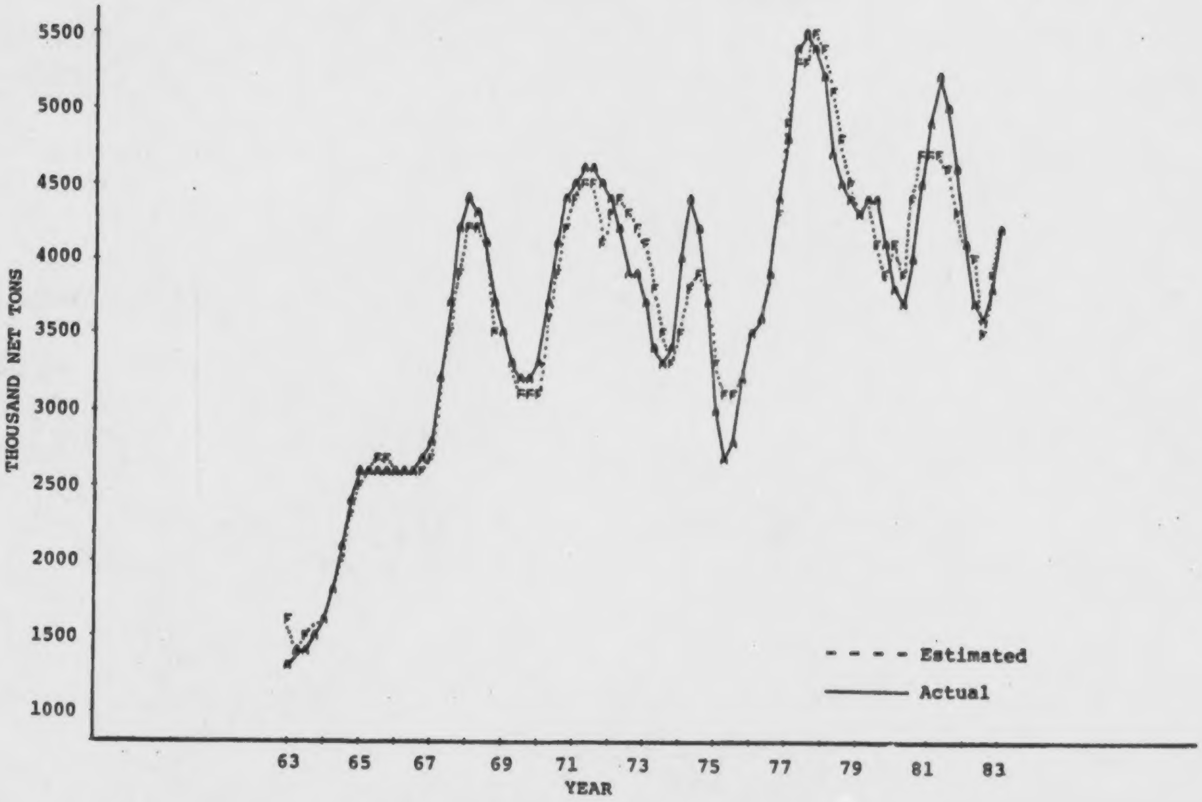


EXHIBIT I-3

FORECAST FOR A TYPICAL QUARTER

	Base Case	10% Increase In Consumption	10% Increase In Operating Rate	10% Increase In Both
Apparent Consumption (m.NT)	24.0	26.4	24.0	26.4
Percent Increase	--	+10	--	+10
Non-U.S. Operating Rate (%)	75	75	82.5	82.5
Percent Increase	--	--	+10	+10
Predicted Imports (m.NT)	4.666	5.405	4.210	4.877
Percent Increase Over Base	--	+15.8	-9.8	+4.5
Predicted Import Share of Market	19.44	20.47	17.54	18.47
Percent Increase Over Base	--	5.3	-9.8	-5.0

Source: MBI model of import behavior. (See text.)

II. VOLUME-RELATED INJURY

Volume-related injury takes many forms, including lost contribution to fixed costs and profit, lost employment, and idling of capacity. Such injury occurs when import tonnage increases and captures a part of the market that otherwise would have been supplied by domestic producers. It can also occur when other factors, such as a decline in general economic or market conditions, cause a reduction in domestic shipments.

Injury Due to Imports

Imports of steel products have fluctuated significantly over the past ten years, as has import share of market. In many cases, as discussed in Section I, those fluctuations have coincided with U.S. demand in a countercyclical fashion. That is, when demand rises, import share of market falls. This has had the effect of magnifying the cycles experienced by domestic producers and thus increasing their risk.

Over the past ten years, import share of market troughs have coincided with consumption peaks on three occasions, each time at a higher share level:

1. From 1973III through 1974II, consumption reached a peak of 119.2 million tons, while imports fell to 13.2 million tons, or 11.1 percent of the market. A low share was reached in 1974I of 8.5 percent.

2. From 1978IV through 1979III, consumption reached a peak of 116.0 million tons, while imports fell to 17.6 million tons, or 15.1 percent of the market. A low share was reached in 1979I of 12.5 percent.

3. From 1980IV through 1981III, consumption reached a peak of 104.8 million tons, while imports were 18.2 million tons, or 17.3 percent of the market. A low share was reached in 1981I of 13.9 percent.

Between these periods, imports have reached peaks representing substantial increases over the low share of market described above. As discussed earlier, these peaks generally coincide with foreign capacity utilization troughs, as foreign producers seek to smooth their production. Conversely, foreign producers tend to withdraw from the U.S. market when their capacity utilization rates are high.

Imports in excess of 15 percent has been the rule since 1977, a period during which the industry has experienced low or negative profitability and other forms of injury. Further, the variability of imports and the countercyclical behavior described above have added a high degree of volatility and risk to the portion of the market served by domestic producers. In Section I, it was suggested that a reasonable goal for government policy would be to insure a long-run reliable supply of steel at the lowest price consistent with such reliability. One way to implement such a goal would be to review historic performance and accept imports at the level at which they have demonstrated their reliability. Whatever market share was provided during all market conditions would be a benchmark for judging future performance. Such a view would support a 15 percent limit on imports.

When imports do exceed 15 percent of the market, the opportunistic behavior of foreign producers injures domestic producers by taking away part of the market. This injury can be quantified by comparing actual imports with a steady import supply level calculated as 15 percent of the market in any time period. This analysis is contained in Exhibit II-1, which shows quarterly imports and consumption from 1973 though 1983.

Since 1977, imports have exceeded 15 percent of quarterly consumption frequently. Over the entire seven-year period, imports have exceeded the baseline level in the amount of 21.9 million tons. This represents a direct loss of shipments to U.S. producers and has had serious ramifications for the domestic industry.

Before beginning the computation of volume-related injury, it is worth digressing briefly to determine what the import model suggests regarding a 15 percent import share of market. Section I described how adjusted foreign operating rate is a key determinant of imports. Based on this relationship, it can be estimated that a level of non-U.S. capacity of 410 million tons in 1982-83 (71 million tons below the actual level) would have resulted in a 15 percent import market share. Had foreign steel producers reacted differently in the last five to ten years by retiring obsolete capacity (especially the EEC) and not overbuilding new capacity (especially developing countries), the world supply/demand balance could have precluded injury to U.S. producers.

Contribution to Fixed Costs and Profit

When a domestic producer loses a ton of steel to imports, the amount of financial injury to the company is less than the price of that ton. This is because certain costs -- the variable costs -- can be avoided when production declines. Note that lost variable costs do injure parts of the steel industry, such as hourly employees and material suppliers, but do not injure steel companies financially. The domestic producer is injured by the difference between price and variable cost, which represents the unit contribution to fixed costs and profit. By definition, fixed costs are those which are unaffected by production level and thus must be borne by the producer at any output level. Fixed costs for the steel industry have changed in the last few years, due to costs associated with plant shutdowns, re-starting facilities, and the future liability for early employment retirements.

Variable costs can be estimated by observing the relationship between total costs and output. The results are summarized in Exhibit II-2. The analysis, based on the experience of the seven largest domestic steel producers, suggests that each ton of steel results in a contribution to fixed costs of $128 compared to an average price of $605/ton, based on 1978-1982 experience.[3] Thus, 21 percent of the price of steel represents a contribution to fixed costs and profits. Finally, the 21 percent contribution rate can be converted into a unit (dollar per ton) rate for the entire industry by applying it to the industry average price for steel. Using the average real domestic price of $553/ton during the Trigger Price Mechanism as a base, an industry average contribution rate of $118/ton is estimated.

Had the domestic producers sold the 21.9 million tons lost to imports, their revenues would have been $12.1 billion higher over the seven-year period. As discussed above, the variable portion of the $12.1 billion loss was not felt by the producers, but rather by their employees and suppliers. Laid-off workers suffered a loss in compensation, and suppliers of goods and services to the steel industry lost revenue they otherwise would have received. This chain of events resulting from lost volume must be traced through if the full impact of injury is to be measured. In the following analysis, only the lost profit to the industry and the lost compensation to workers will be quantified.

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[3] Recall all prices are expressed in 1983 dollars.

Volume-related profit injury to the domestic industry is calculated by multiplying lost tonnage by the unit contribution to fixed costs and profits. This analysis is performed on a quarterly basis from 1977 through 1983, as shown in Exhibit II-3 and summarized below:

	Average Contribution (1983 $/ton)	Excess Imports (m. tons)	Injury (m. 1983 $)
1977	118	3.05	359
1978	118	3.62	427
1979	118	.31	36
1980	118	1.21	143
1981	118	4.06	478
1982	118	5.13	604
1983	118	4.55	536
		21.93	2581

Opportunistic behavior by imports, which has taken some 21.9 million tons from the domestic industry, resulted in lost profits of nearly $2.6 billion (1983 dollars). In particular, excessive imports in the last three years have caused nearly two-thirds of the entire injury since 1977.

Employment

Employment in the steel industry has declined for many reasons. In addition to imports, long-term declining demand and economic cycles discussed earlier, employment is reduced as a result of improved productivity and production yields.

Reduced employment directly injures the workforce and causes related injury to local communities and throughout the domestic economy.

The approach used in estimating employment injury in this section is conservative. For example, only direct employees are considered, despite large reductions in salaried workers which may have been precipitated by imports. Thus, our analysis is limited in that it only considers employment injury associated with excess imports and involving direct employees.

For each year, the actual average hours per worker and average compensation in real (1983) dollars are used to estimate lost jobs and wages, respectively. It is important to note that declines in each of these factors, in themselves, represent injury to the industry and its workers. For example, a decline in real wages, such as the drop observed between 1982 and 1983, reflects a real loss of welfare for industry employees. The portion of this drop which is attributable to increased import penetration should be included in the calculation of injury. However, this analysis utilizes actual hours per worker and wage levels for each year. Therefore, the figures conservatively reflect minimum estimates of employment-related injury in terms of lost jobs and wages.

The injury through lost jobs and wages calculated in this analysis is suffered directly by industry employees. In turn, these losses cause additional injury to the families and communities of those employees, as well as to the nation as a whole. Direct community impacts result through the "multiplier effect": unemployed workers have reduced demands for goods and services, which, in turn, cause unemployment in other industries. Studies have estimated this multiplier at between 1.8

and 2.4 workers per manufacturing employee.[4] Tax revenues are lost at the same time that additional government benefits payments are required. In addition, studies have indicated that significant negative public health and social impacts result from unemployment and plant closures.

The analysis is shown in Exhibit II-4. Average (1977-1983) excess imports of 3.1 million tons per year are translated into lost hours for direct employees using their productivity, which averaged 9.1 hours per ton of finished steel from 1977-1983. Over the 1977-1983 period, employment injury has averaged about 28 million worker-hours per year, representing about 14,000 jobs lost. The particularly strong surge of imports in 1982 caused even greater injury, totalling almost 47 million hours or almost 25,000 jobs. These figures represent direct employment injury alone and exclude the tremendous salaried force reductions that occurred in 1982-1983. Inclusion of the job multiplier effect (using an average value of 2.1) indicates that the average total injury level is almost 30,000 total jobs per year, reaching over 50,000 in 1982.

Translating this injury into dollars (Exhibit II-4) indicates a loss of almost $2.5 billion (1983 dollars) in direct steelworker compensation alone over the 1977-1983 period. This figure represents the total variable portion of hourly compensation which was foregone by domestic producers. Part of this injury to industry employees is assuaged by payments such as supplemental unemployment or government benefits. However, these are pure transfers, which do not reduce total injury but merely spread the injury burden. In addition, lost tax revenues and wages lost through the multiplier effect should be considered in evaluating the total cost of employment injury to the domestic economy.

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[4] Rhyne, Elisabeth, Federal Policy Toward Plant Closings, Harvard University, 1980.

EXHIBIT II-1

COMPUTATION OF EXCESS IMPORTS, 1973-1983
(thousands of net tons)

Period		(1) Apparent Consumption	(2) Imports	(3) Imports @ 15%	(4) Excess Imports
1973	Q1	30,330	3,812	4,550	-738
	Q2	31,311	3,845	4,697	-852
	Q3	29,446	3,736	4,417	-681
	Q4	30,051	3,605	4,508	-903
1974	Q1	29,532	2,508	4,430	-1,922
	Q2	30,220	3,365	4,533	-1,168
	Q3	28,811	4,113	4,322	-209
	Q4	29,381	5,770	4,407	1,363
1975	Q1	25,625	4,083	3,844	239
	Q2	21,119	2,693	3,168	-475
	Q3	21,061	2,210	3,159	-949
	Q4	20,199	2,834	3,030	-196
1976	Q1	24,381	2,958	3,657	-699
	Q2	26,845	3,315	4,027	-712
	Q3	25,208	3,621	3,781	-160
	Q4	23,351	4,187	3,503	684
1977	Q1	24,292	3,261	3,644	-383
	Q2	29,117	4,690	4,368	322
	Q3	27,057	5,423	4,059	1,364
	Q4	26,589	5,733	3,988	1,745
1978	Q1	28,411	5,694	4,262	1,432
	Q2	29,398	4,970	4,410	560
	Q3	28,759	5,194	4,314	880
	Q4	28,647	5,049	4,297	752
1979	Q1	29,161	3,642	4,374	-732
	Q2	29,597	4,042	4,440	-398
	Q3	28,558	4,888	4,284	604
	Q4	26,081	4,743	3,912	831
1980	Q1	27,280	3,999	4,092	-93
	Q2	22,276	4,016	3,341	675
	Q3	19,797	3,478	2,970	508
	Q4	24,644	3,819	3,697	122

Period	(1) Apparent Consumption	(2) Imports	(3) Imports @ 15%	(4) Excess Imports
	-----------(thousand of net tons)----------			
1981 Q1	25,998	3,618	3,900	-282
Q2	28,216	5,146	4,232	914
Q3	25,927	5,571	3,889	1,682
Q4	23,937	5,336	3,591	1,745
1982 Q1	21,261	4,830	3,189	1,641
Q2	19,682	4,449	2,952	1,497
Q3	17,009	3,697	2,551	1,146
Q4	17,311	3,445	2,597	848
1983 Q1	18,082	3,314	2,712	602
Q2	20,185	3,774	3,028	746
Q3	20,695	4,489	3,104	1,385
Q4	23,010	5,269	3,452	1,817
1977-83 Total	690,977	125,579	103,649	21,930*

*Total is net of imports below 15 percent; i.e., the negative figures in the column are included in the total.

Source: Column (1): Apparent Consumption is calculated as Shipments + Imports - Exports. Data from the Dept. of Commerce
Column (2): Imports from the Dept. of Commerce.
Column (3): Column (1) x .15.
Column (4): Column (2) - Column (3).

EXHIBIT II-2

CONTRIBUTION TO FIXED COSTS AND PROFIT BY COMPANY

	(1) Average Price	(2) Variable Cost	(3) Contribution	(4) Ratio of Contribution to Price
	------(1983 dollars per ton)------			(ratio)
Armco	539	422	117	.217
Bethlehem	574	436	138	.240
Inland	508	375	133	.262
J&L	667	540	127	.190
National	575	415	160	.278
Republic	718	507	211	.294
U.S. Steel	622	541	81	.130
Average weighted by percent of shipments from 1978-82	605	477	128	.213

Note: Totals may not add due to rounding.

Source: Column (1): From Annual Reports of companies.
Column (2): MBI analysis of data from Annual Reports.
Column (3): Column (1) - Column (2).
Column (4): Column (3)/Column (1).

EXHIBIT II-3

VOLUME-RELATED PROFIT INJURY DUE TO EXCESS IMPORTS, 1977-1983

		(1) Average Contribution (1983 $/ton)	(2) Excess Imports (000 tons)	(3) Injury (m.1983$)
1977	Q1	118	-383	-45
	Q2	118	322	38
	Q3	118	1364	161
	Q4	118	1745	205
1978	Q1	118	1432	169
	Q2	118	560	66
	Q3	118	880	104
	Q4	118	752	89
1979	Q1	118	-732	-86
	Q2	118	-398	-47
	Q3	118	604	71
	Q4	118	831	98
1980	Q1	118	-93	-11
	Q2	118	675	79
	Q3	118	508	60
	Q4	118	122	14
1981	Q1	118	-282	-33
	Q2	118	914	108
	Q3	118	1682	198
	Q4	118	1745	205
1982	Q1	118	1641	193
	Q2	118	1497	176
	Q3	118	1146	135
	Q4	118	848	100
1983	Q1	118	602	71
	Q2	118	746	88
	Q3	118	1385	163
	Q4	118	1817	214
Total			21,930	2,581*

*Total is net of negative injury; i.e., the negative figures in the column are included in the total.

Source: Column (1): Based on 21.3% contribution applied to TPM base price of $553.
Column (2): Imports above 15% share (Exhibit II-2)
Column (3): Column (1) * Column (2).

EXHIBIT II-4

EMPLOYMENT-RELATED INJURY DUE TO EXCESS IMPORTS, 1977-1983

Year	(1) Excess Imports (000 NT)	(2) Production Workers Hrs/Ton (000)	(3) Total Lost Hours	(4) Total Lost Jobs	(5) Total Dollar Injury (million 1983$)	(6) Total Lost Jobs Including Multiplier Effect
1977	3,048	9.74	29,688	14,661	408.73	30,787
1978	3,624	9.48	34,356	16,557	493.67	34,769
1979	305	9.41	2,870	1,393	42.09	2,926
1980	1,212	9.43	11,429	5,802	169.67	12,183
1981	4,059	9.07	36,815	18,225	552.62	38,273
1982	5,132	9.10	46,701	24,644	721.26	51,753
1983	4,550	7.64	34,762	17,781	502.24	37,340
Total	21,930	NA	196,621	99,063	2,481.53	208,032
Average	3,133	NA	28,089	14,152	412.89	29,719

Note: Totals may not add due to rounding.

Source:
Column (1) : Imports above 15% share (Exhibit II-1).
Column (2) : Column (1) hours per ton factors, computed from shipments and Bureau of Labor Statistics Employment Data, based on 50 weeks per year.
Column (3) : Column (1) x Column (2)
Column (4) : Column (3) divided by hours per worker factors for BLS Data.
Column (5) : Column (3) times variable compensation per hour which includes BLS wage figures and 20.9 percent of AISI benefit rate.
Column (6) : Column (4) times 2.1 multiplier factor

EXHIBIT II-5

CAPACITY UTILIZATION INJURY DUE TO EXCESS IMPORTS, 1977-1983

	(1) Excess Imports (000 NT)	(2) Raw Steel Equivalence Factor (% Yield)	(3) Lost U.S. Tonnage (000 NT)	(4) U.S. Capability (000 NT)	(5) Actual Utilization (%)	(6) Lost Utilization (%)	(7) Potential Utilization (%)
1977	3,048	72	4,233	160,000	78.3	2.7	81.0
1978	3,624	72	5,033	157,900	86.8	3.2	90.0
1979	305	72	424	155,300	87.8	0.3	88.1
1980	1,212	73	1,660	153,700	72.8	1.1	73.8
1981	4,059	73	5,560	154,300	78.3	3.6	81.9
1982	5,132	73	7,030	154,000	48.4	4.6	53.0
1983	4,550	76	5,987	150,500	56.2	4.0	60.2
Average 1977-1983	3,133	73	4,275	155,100	72.7	2.8	75.4

Note: Totals may not add or multiply due to rounding.

Source:
Column (1): Imports above 15% share from Exhibit II-1.
Column (2): World Steel Dynamics, Core Report J and Core Report Q.
Column (3): (Column (1)/Column (2)) * 100.
Column (4): American Iron and Steel Institute.
Column (5): American Iron and Steel Institute.
Column (6): Column (3)/Column (4).
Column (7): Column (6) + Column (7).

III. PRICE-RELATED INJURY

When imports increase, volume is taken away from domestic producers with the resulting effects described in the last section. As discussed in Section I, such share gains by foreign producers are made using pricing tactics. Simply put, foreign capacity utilization dictates U.S.-bound export targets, and import prices are set to meet those targets. As a result, import prices are driven down -- frequently below cost -- causing domestic producers to follow suit or lose even greater market share. Such price suppression by foreign producers has had a serious impact on the domestic industry. This section describes and quantifies the resulting price-related injury.[5]

Pricing During the Trigger Price Mechanism

In the four years between 1978II and 1982I, the existence of the Trigger Price Mechanism (TPM) limited the ability of foreign producers to significantly reduce prices. Although the TPM did not substantially curtail imports or enable domestic producers to make reasonable profits, it did provide a stable pricing environment by bringing import prices more in line with economic factors.

Steel pricing during TPM can be summarized as follows:

1. Import prices and domestic prices were relatively constant in real terms, with import prices maintaining about a 3 percent discount below domestic prices.

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[5] The price analysis is based on domestic mill prices and delivered import value. While the latter may not be an exact transaction price, it is believed to closely approximate price.

2. Steel price inflation during the TPM was not significant; domestic prices increased only 3.4 percent in real terms when comparing average prices during the four-year TPM with the three years prior to the TPM. This is less than 1 percent per year real increase, while costs were increasing at a much faster rate.

3. Import prices averaged about 8 percent below the full cost (including profit and delivery) of Japanese producers, when calculating costs using actual Japanese operating rates and exchange rates. Costs measured this way are above trigger prices, since the TPM used multi-year average operating and exchange rates which behaved in a way to reduce cost estimates in 1978-81.

Domestic versus Import Prices

Real (expressed in 1983 dollars) domestic and import prices are graphed in Exhibit III-1. Both series represent an identical mix of carbon steel products. Exhibit III-2 lists the two sets of prices and their ratio.

It is immediately apparent from these exhibits that the TPM, which was in place from 1978II to 1982I, provided considerable price stability. This can be observed both in terms of the variability of domestic and import prices as well as the ratio of the two. While the ratio of import to domestic prices swung from as high as 1.31 (+31 percent) in 1974 to a low of .84 (-16 percent) in 1977, the ratio hovered at a fairly stable average of .97 (-3 percent) during the TPM.

The lifting of U.S. price controls in 1974 spurred a rapid increase in domestic prices from the beginning to the end of that year. Since then, however, domestic prices were remarkably stable in real terms until 1982-1983. The average real domestic price (1983 dollars) during 1975I-1978I was $535/NT, varying no more than 5 percent above or below that level. During the TPM, the average real domestic price was $553/NT, only 3.4 percent above the pre-TPM period. Again, prices varied by less than five percent above or below the TPM average level.

While real domestic prices were increasing by under 1 percent per year during the TPM, real costs were increasing by far greater amounts. Specifically, real hourly employment costs rose 12.6 percent[6] (about 3.5 percent per year) and real material costs rose 7.0 percent[7] (about 2.0 percent per year) when comparing 1978-1981 with 1975-1977. This means that gross margins for domestic steel companies declined during the TPM, and allegations of excessive profit-taking are false. The most important conclusion from this analysis is that inflationary impacts of the TPM were minimal. Real price increases by domestic producers were modest -- less than one percent per year versus the pre-TPM period -- and far less than cost increases. Real domestic prices (1983 dollars) were actually lower at the end of the TPM ($525/NT) than at its beginning ($555/NT) or even compared to 1975 ($547/NT).

Stable domestic steel pricing from 1975-1981 was due not only to the TPM but also to the inelastic nature of steel demand. This means that steel demand is relatively insensitive to price. This is because demand for steel is derived from demand for other products, such as automobiles, heavy equipment, oil and gas, and many others. An important conclusion from analyzing domestic prices from 1975-1981 is that they were extremely stable and not significantly influenced by market conditions. Recall that this period included two demand troughs, in 1975 and in 1980.

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[6] 1982 Annual Statistical Report, AISI

[7] Steel Strategist #8, World Steel Dynamics, July, 1983

Due to the inelastic nature of steel demand in the short run, real price changes are generally attributable to a desire by one or more market participants to change their share of market. It is worth noting that real domestic prices, real import prices, and import share of market changed little during the TPM, since imports could not use price as a share-gaining tactic. Prior to the TPM, however, foreign producers dropped import prices and did gain share of market. Thus, any price suppression observed after 1981 can be directly attributable to foreign producers and their attempt to gain market share.

Import Prices versus Japanese Costs

In 1978, the U.S. Department of Treasury instituted the Trigger Price Mechanism. The TPM was designed to trigger an anti-dumping investigation when import prices fell below a certain floor, set for each individual steel product. The floor was based on the full cost (including profit) of the world's most efficient producer, assumed to be Japan. Trigger prices provided an accurate look at Japanese costs as they were based on data from Japan's Ministry of International Trade and Industry and reviewed by U.S. government personnel.

Trigger prices can be viewed as the minimum long-term price for steel, permitting recovery of costs and profits adequate to attract capital and to sustain investment. Although periodic pricing shortfalls may occur, these are expected to be offset by periodic pricing premiums such that average long-term prices equal trigger prices. Without such price levels, privately-held steel companies are in a liquidation mode. Note that less efficient producers (virtually all other countries, with the possible exception of Korea), must actually require higher prices in order to cover their higher costs and to attract capital and sustain investment.

Based on the foregoing discussion, it is reasonable to use the cost of the most efficient producer, assumed to be Japan, as a minimum acceptable price against which to compare actual import prices. Note that using the this benchmark for the cost of all imports is low because importers other than Japan are less efficient.

It was assumed that actual Japanese import prices and trigger prices were equivalent for the last full year of the TPM, 1981 II to 1982 I. This period was chosen for two reasons. First, since the TPM was refined throughout its duration, it was most accurate toward its end. Second, actual trigger prices (based on average operating rate and exchange rate) and adjusted trigger prices (based on actual operating rate and exchange rate) were approximately equal since the two sets of rates generally coincided during that period. Thus, Japanese import prices could be expected to be equal to trigger prices, adjusted for operating and exchange rates, in 1981.

Japanese costs are compared to actual import prices in Exhibit III-3. Note that both series are expressed in 1983 dollars. Exhibit III-4 lists real Japanese costs, real import prices, and their difference.

Since 1975, import prices have generally been below full, landed Japanese costs. From approximate parity in late 1975, the margin of underselling increased until 1978 when trigger prices were implemented. In 1979, price and cost parity was again achieved. Underselling began again in 1980, hastened by the suspension of the TPM in 1980II-III. The effects of the suspension continued until early 1981, and price and cost parity was achieved again at the end of 1981, just prior to the termination of the TPM.

During the TPM, imports undersold full, delivered Japanese costs by an average of 8 percent. Note that actual trigger prices were lower than actual Japanese costs because the TPM used lagged operating rates which were higher than current operating rates and thus drove TPM cost estimates down. Thus, imports may not have been priced substantially below trigger prices even though import prices were below actual Japanese costs.

Pricing in 1982II-1983IV

Since the termination of the TPM in the first quarter of 1982, pricing in the domestic steel market has been chaotic. Steel pricing in the post-TPM period can be summarized as follows:

1. Import prices fell by 16 percent in real terms in less than two years, representing an average decline of $88/ton. (1983 dollars)

2. In an effort to remain competitive, domestic producers followed the import price cuts and domestic prices fell by 13 percent in real terms, representing an average of $74/ton.

These observations can be documented by referring to the exhibits referenced earlier in this section, Exhibits III-1 to III-4.

The nosedive in real domestic and import prices is apparent in Exhibit III-1. From an average of $537/ton during the TPM, real import prices fell to $396/ton by the end of 1983, a 26 percent drop. The average real decline from TPM to post-TPM was 16 percent. Real domestic prices fell from an average of $553/ton during the TPM to $449/ton by the end of 1983, a 19 percent drop. The average real decline from TPM to post-TPM was 13 percent.

Import prices fell sooner, fell faster, and ultimately fell further than domestic prices. In short, import prices led the decline. The figures in Exhibit III-2 show how domestic and import price parity in early 1982 gave way to a rapid decline in the ratio of import to domestic prices, which fell to .88 (-12 percent) by the end of 1983. The average ratio in the post-TPM period was .94 (-6 percent) compared to the average ratio during TPM of .97 (-3 percent).

It is interesting to note the source of most of the post-TPM import pricing actions. Since the EEC and Japan have agreed to formal and informal import limits, respectively, their need to reduce price is not as pressing as that of other countries. "All other" importing countries -- which exclude Japan, EEC, and Canada -- are in fact the subset responsible for the price decline. The ratio of their prices to domestic prices fell from .99 (-1 percent) in the last quarter of the TPM (1982I) to .78 (-22 percent) by early 1983, where it has stayed. This drop coincided with a tremendous jump in import market share for these countries from 5.0 percent during the TPM to 8.0 percent in the post-TPM period as they took advantage of the Japan and EEC restraint agreements.

The comparison of import prices with Japanese costs makes it clear that the decline in prices can only partially be explained by a reduction in costs or a shift in exchange rates. Exhibit III-3 shows the tremendous drop in import prices, even relative to Japanese costs, in 1982-1983. From parity in early 1982, real prices fell below costs by $106/ton by the end of 1983. The margin of underselling was 13 percent in the post-TPM period as compared to 8 percent during the TPM.

1983IV data indicate that the import price drop was continuing into 1984.

There can be little doubt that the post-TPM price decline was caused by imports. Imports led the price decline. Further, the magnitude of the import price decline did not reflect the magnitude of cost improvements. Rather, the price decline was a decision by foreign producers based primarily on short-term opportunistic desires and not a reflection of economic reality, i.e., the need to make a profit. Domestic producers had little choice but to follow import pricing tactics in an effort to try and preserve share of market.

Price Suppression Injury

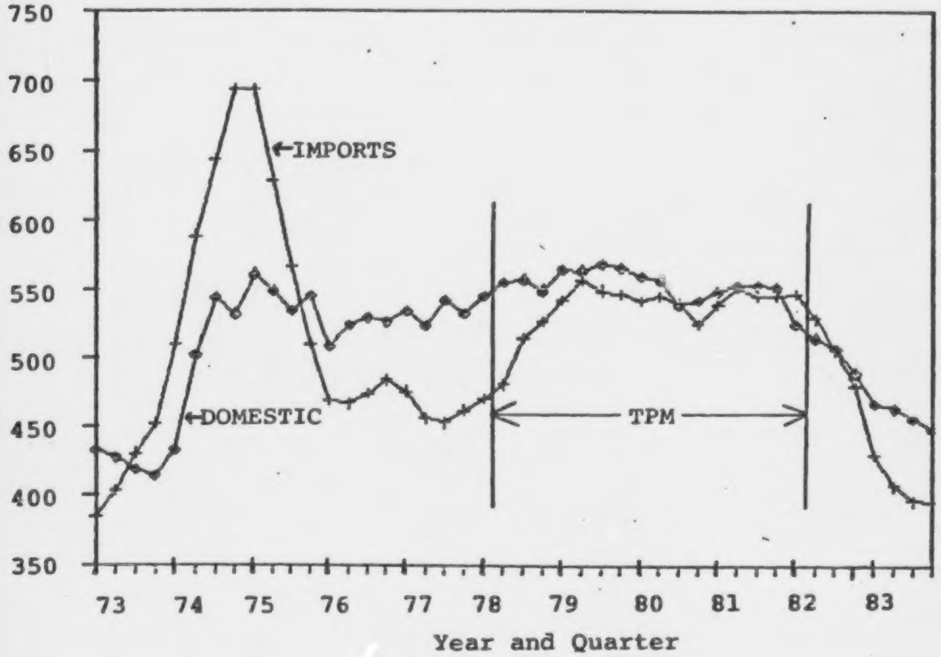
Section I documented that foreign producers have used price as a means of achieving import share changes in accordance with a strategy of maintaining stable operating rates. Thus, price changes occur not because of changing demand levels but because of a desire by foreign producers to change their share of the U.S. market. Foreign producers' ability to substantially reduce import prices was limited during the TPM. After the TPM, however, import prices quickly dropped as foreign producers tried to gain market share. This import price reduction caused a reduction in domestic prices which can be attributed wholly to imports.

Injury related to price suppression can be calculated by comparing domestic prices during the TPM -- a "normal" pricing period -- to those after the TPM, when imports forced domestic prices down. The use of domestic prices during the TPM as a benchmark is extremely conservative. This is because prices then were still inadequate to allow the domestic industry to make a reasonable profit. Further, import prices for nearly all foreign producers were allowed to fall below costs -- in effect, providing for a "license to dump". Thus, any decline in domestic prices below TPM-period levels represents a minimum estimate of price suppression experienced by domestic producers.

Exhibit III-5 shows the comparison of "baseline" domestic prices (average domestic price during the TPM) and actual domestic prices in the post-TPM period. The difference, calculated quarterly, is multiplied by domestic shipments to estimate total injury due to price suppression. The analysis indicates that price suppression increased from $38/ton in early 1982 to $104/ton by the end of 1983. By the fourth quarter of 1983, injury due to price suppression reached $1.8 billion and showed no indication of slowing. During the seven quarters following the termination of the TPM, price suppression due to imports resulted in a pre-tax profit loss of over $8.1 billion to the domestic steel industry. Further, it is apparent that domestic prices have not increased to TPM levels in 1984, suggesting that extensive injury is still occurring.

EXHIBIT III-1

GRAPH OF REAL DOMESTIC AND IMPORT CARBON STEEL PRICES 1973-1983



Source: Exhibit III-2.

EXHIBIT III-2

REAL DOMESTIC AND IMPORT CARBON STEEL PRICES AND THEIR RATIO, 1973-1983

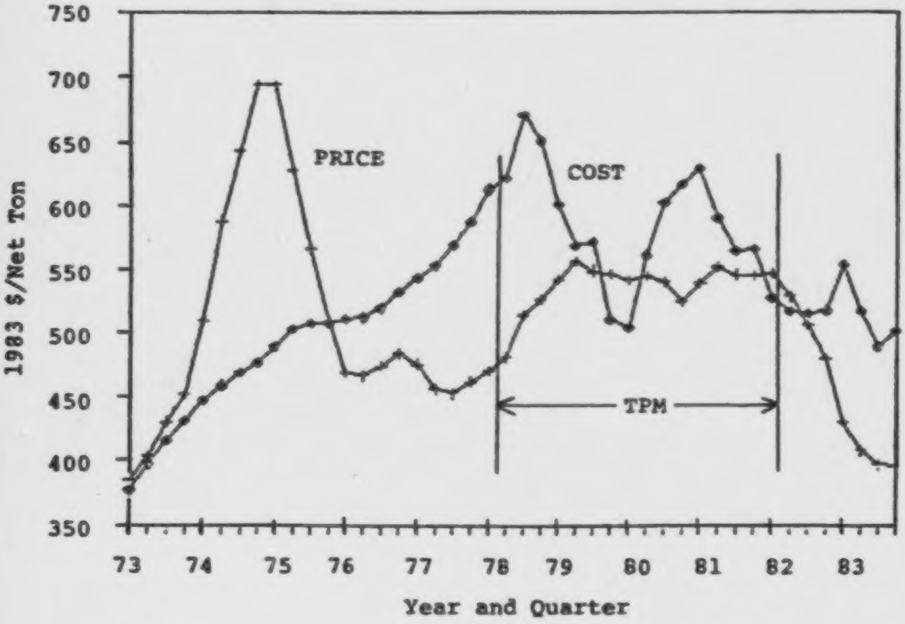
Period		(1) Domestic Prices	(2) Import Prices	(3) Ratio of Import to Domestic Prices
		(1983 dollars per net ton)		
1973	Q1	433	385	0.89
	Q2	428	404	0.94
	Q3	420	431	1.02
	Q4	415	452	1.09
1974	Q1	433	509	1.18
	Q2	502	588	1.17
	Q3	544	643	1.18
	Q4	532	695	1.31
1975	Q1	560	694	1.24
	Q2	548	628	1.15
	Q3	535	566	1.06
	Q4	545	510	0.94
1976	Q1	508	469	0.92
	Q2	524	467	0.89
	Q3	529	474	0.90
	Q4	526	484	0.92
1977	Q1	534	476	0.89
	Q2	524	456	0.87
	Q3	542	453	0.84
	Q4	533	462	0.87
1978	Q1	545	471	0.86
	Q2	555	481	0.87
	Q3	557	514	0.92
	Q4	549	527	0.96
1979	Q1	564	542	0.96
	Q2	563	556	0.99
	Q3	568	549	0.97
	Q4	565	547	0.97
1980	Q1	559	542	0.97
	Q2	556	545	0.98
	Q3	539	541	1.00
	Q4	542	525	0.97

Period	(1) Domestic Prices	(2) Import Prices	(3) Ratio of Import to Domestic Prices
1981 Q1	548	539	0.98
Q2	553	552	1.00
Q3	553	546	0.99
Q4	552	545	0.99
1982 Q1	525	547	1.04
Q2	515	529	1.03
Q3	508	506	1.00
Q4	490	480	0.98
1983 Q1	468	430	0.92
Q2	464	408	0.88
Q3	457	397	0.87
Q4	449	396	0.88

Source: Columns (1), (2): Department of Commerce and Bethlehem Steel Corporation
Column (3): Column (2)/Column (1).

EXHIBIT III-3

GRAPH OF REAL IMPORT PRICES AND FULL JAPANESE COSTS FOR CARBON STEEL 1973-1983



Source: Exhibit III-4.

EXHIBIT III-4

REAL JAPANESE COSTS, REAL IMPORT PRICES, AND THEIR DIFFERENCE, 1973-1983

Period		(1) Japanese Costs	(2) Import Prices	(3) Margin
		----(1983 dollars	per net ton)----	
1973	Q1	377	385	8
	Q2	397	404	7
	Q3	416	431	15
	Q4	432	452	20
1974	Q1	447	509	61
	Q2	459	587	128
	Q3	469	643	174
	Q4	477	695	218
1975	Q1	489	694	205
	Q2	503	627	125
	Q3	508	566	58
	Q4	508	510	2
1976	Q1	511	469	-42
	Q2	512	467	-45
	Q3	520	474	-46
	Q4	533	484	-49
1977	Q1	544	476	-68
	Q2	553	456	-97
	Q3	569	453	-117
	Q4	587	462	-125
1978	Q1	613	471	-142
	Q2	622	481	-141
	Q3	671	514	-158
	Q4	651	527	-124
1979	Q1	601	542	-59
	Q2	569	556	-13
	Q3	572	549	-23
	Q4	511	547	37
1980	Q1	505	542	37
	Q2	561	545	-16
	Q3	603	541	-62
	Q4	617	525	-92

Period	(1) Japanese Costs	(2) Import Prices	(3) Margin
	---(1983 dollars per net tons)---		
1981 Q1	629	539	-90
Q2	591	552	-39
Q3	564	546	-18
Q4	565	545	-20
1982 Q1	528	547	18
Q2	517	529	13
Q3	516	506	-10
Q4	518	480	-38
1983 Q1	553	430	-123
Q2	517	408	-108
Q3	489	397	-91
Q4	502	396	-106

Source: Column (1): MBI analysis based on data from World Steel Dynamics and Trigger Price Mechanism manual.
Column (2): Department of Commerce. Weighted average prices.
Column (3): Column (2) - Column (1).

EXHIBIT III-5

PRICE-RELATED INJURY DUE TO IMPORTS, 1982II-1983IV

	(1) Baseline Price	(2) Actual Price	(3) Margin of Price Suppression	(4) Domestic Shipments	(5) Total Injury
	-------(1983	dollars	per ton)-------	(m. tons)	(1983 $m.)
1982 II	553	515	38	15.2	578
III	553	508	45	13.3	599
IV	553	490	63	13.9	876
1983 I	553	468	85	14.7	1250
II	553	464	89	16.4	1460
III	553	457	96	16.1	1546
IV	553	449	104	17.7	1841
Total					8150

Totals may not add due to rounding.

Source: Column (1): Average real domestic price in 1978II-1982I, from Department of Commerce and Bethlehem Steel Corporation.

Column (2): Derived from data from the Department of Commerce and Bethlehem Steel Corporation.

Column (3): Column (1) - Column (2).

Column (4): Shipments - Exports, from Department of Commerce data.

Column (5): Column (3) X Column (4).

IV. THREAT OF FUTURE INJURY

Section I discussed the nature of import behavior in the U.S. steel market. The model developed in that section provides an analytical framework with which to analyze the conduct of imports in the future.

In this section, that model framework is used to estimate import share of the U.S. market over the 1985 to 1989 time period. This analysis is grounded in the assumption that current United States public policy will continue. This implies that the U.S. government will take no comprehensive action to reduce steel imports. Therefore, the U.S. will continue to be an open market for world steel trade. World trends in capacity and in steel production can be expected to continue, which will result in the import levels discussed in the projections below.

As discussed in Section II, import levels which exceed 15 percent of the market cause injury to the domestic steel industry. The volume-related injury resulting from forecast import levels beyond 15 percent is quantified in this section for the five years from 1985 through 1989. Additional price-related injury is also likely to occur since price is the mechanism utilized by imports to gain market share.

The analysis is presented in two sections. First, the application of the model to estimate future import behavior is discussed. The import share of the U.S. market derived from that analysis is used to calculate the resulting impacts on the domestic industry. Second, volume-related injury to the domestic industry over the 1985-1989 time period is calculated.

Estimation of Import Share of Market

Based on the model discussed in Section I, the key determinants of the import share of the U.S. market are:

- Foreign operating rate, adjusted for imports to the United States, and
- U.S. apparent consumption.

Three alternative foreign production levels were contemplated which provide three foreign operating rate scenarios. The derivation of the forecasts is discussed below, in terms of the major components. Import market share is then estimated using the import model described in Section I.

Import Share of Market

The factors described above were used to forecast imports and the import share of U.S. apparent consumption of steel for the 1985-1989 period. This is done using the import model described in Section I. These estimates are computed for each of the three world economic scenarios discussed above. The results, which are shown in Exhibit IV-3, indicate that imports could reach 26 million tons and a 25.6 percent share of market by 1989. Note that these estimates are based on trend forecasts; any cyclical movements around the trend could create even greater import penetration.

EXHIBIT IV-1

PROJECTED EFFECTIVE CAPACITY BY REGION, 1984-1990
(All figures in million net tons)

Region	1984	1985	1986	1987	1988	1989	1990
EEC	167	166	165	164	163	162	161
Japan	151	151	151	151	151	151	151
Developing Western World	98	104	109	115	121	126	132
United States	138	137	136	135	134	133	132
All Other Western World	71	71	72	72	73	73	74
Total	625	629	633	637	642	646	650

Source: Estimates are based on "Actual/Planned" Effective Crude Steel Capacity from Exhibit D of World Steel Dynamics, Steel Strategist #9, February 1984. Figures for 1985-1989 were linearly interpolated. United States capacity for 1990 is derived from MBI analysis.

EXHIBIT IV-2

PROJECTED WORLD PRODUCTION AND ADJUSTED OPERATING RATE, 1985-1989
(Production in Millions of Net Tons)

	WORLD ECONOMIC SCENARIO					
	High Trend		Base Case		Low Trend	
Year	Production	Adjusted Operating Rate (%)	Production	Adjusted Operating Rate (%)	Production	Adjusted Operating Rate (%)
1985	519	79.1	511	77.5	506	76.4
1986	526	79.3	514	77.2	506	75.7
1987	532	79.6	517	76.8	506	74.9
1988	539	79.7	519	76.3	506	74.0
1989	546	79.9	522	76.0	506	73.3

Source: Western World production forecasts are based on growth rates from 15-year trend as described in text. Annual growth rates utilized are:

High trend	1.30%
Base case (actual trend)	.54%
Low trend	No growth from 1985 trend levels.

The adjusted operating rate is computed as world production, less United States apparent consumption in raw steel equivalent tons (see Exhibit IV-3), divided by net foreign capacity from Exhibit IV-1.

EXHIBIT IV-3

STEEL IMPORT FORECAST, 1985-1989
(Millions of net tons except as indicated)

Year	(1) U.S. Apparent Consumption	World Economic Scenario: High Trend Imports	High Trend Import Share (%)	Base Case Imports	Base Case Import Share (%)	Low Trend Imports	Low Trend Import Share (%)
1985	99.7	21	21.0	21	21.5	22	21.8
1986	100.2	22	21.7	22	22.3	23	22.7
1987	100.8	23	22.4	23	23.1	24	23.6
1988	101.3	24	23.2	24	24.0	25	24.6
1989	101.9	25	24.0	25	24.9	26	25.6

Source: Column (1): Base case U.S. consumption projected at .54 percent annual growth from 1985 levels, which are from Data Resources, Inc. Steel Industry Review, First Quarter 1984.

STATEMENT OF ROBERT B. PEABODY, PRESIDENT OF AMERICAN IRON & STEEL INSTITUTE, REGARDING STATEMENT OF CONGRESSIONAL BUDGET OFFICE

On June 20, 1984 the Congressional Budget Office (CBO) presented a statement to the Trade Subcommittee of the Committee on Ways and Means commenting on H.R. 5081, the Fair Trade in Steel Act of 1984.

AISI believes that the CBO has omitted major facts in its analysis of the current problems of the U.S. steel industry. Moreover, the CBO statement contains projected data which are not an accurate representation of the industry's present position and its near-term prospects for the future.

CBO STATEMENT ON CAUSES OF THE STEEL INDUSTRY'S PROBLEMS

CBO says the primary causes of the United States (traditional steel industry's) deteriorating performance are to be found not in unfair foreign competition ... but in three more fundamental trends:

- Steel production and consumption have gradually shifted away from their traditional centers in Europe and North America to developing countries;
- The U.S. has been consuming less steel per dollar of GNP;
- Mini-mills, according to CBO, now account for about 18% of domestic steel output.

AISI RESPONSE

Effect of Subsidies and Foreign Market Protection Not Acknowledged

CBO's major omission is its failure to acknowledge the fact that over the past 15 years, foreign governments have provided $40 to $50 billion of subsidies to their steel industries. These foreign government subsidies have permitted inefficient and unprofitable firms to maintain steel production and upgrade facilities, while sustaining massive losses, thus contributing to the present overhang on the market of at least 200 million tons of excess capacity outside the United States. This includes capacity financed by up to $12 billion of developed country funding for the sale of steel plant and equipment to less developed countries. In addition, subsidization of foreign steel industries has been combined with a substantial closure of their own markets to foreign competition. European Community bilateral agreements with other producing nations and the effective insulation of the Japanese market from imported products are key examples of this phenomenon. Moreover, imported steel typically doesn't enter developing countries if those countries themselves can produce the products concerned. The huge excess capacity built up by subsidization has been forced to find an outlet in the only major market left open, i.e. the U.S. The result has been a breakdown in the international steel trade market mechanism, since the market has not disciplined inefficient or rewarded efficient producers. These subsidies have removed the link between market share, profits and investment flows. The attendant breakdown in the market system has caused major increases in imports at uneconomic prices. It is this failure of the world steel market system that has been the principal problem of the U.S. industry, and the one which CBO has not identified.

Decline in Intensity

As to the decline in steel intensity, it is correct that the steel component of U.S. GNP has been declining, but that is also true in all the major developed countries of the West in the past decade, during a period when most of these countries were expanding their steel capacity and dependence on export markets, when the U.S. industry was not.

The data below show there has been no appreciable decline in actual steel consumption in the United States, except in 1982 and 1983, during the most severe recession since World War II. What has dramatically changed is the source of steel consumed ------- namely the growth of imports into the U.S., as other world steel producers desperately sought to export their excess production at prices below their costs:

Year	(Thousands of Net Tons)				Imports as % of Apparent Consumption
	Domestic Net Shipments	+ Imports	- Exports	= Apparent Consumption	
1965	92,666	10,383	2,496	100,553	10.3
1966	89,995	10,753	1,724	99,024	10.9
1967	83,897	11,455	1,685	93,667	12.2
1968	91,856	17,960	2,170	107,646	16.7
1969	93,877	14,034	5,229	102,682	13.7
1970	90,798	13,364	7,053	97,109	13.8
1971	87,038	18,304	2,827	102,515	17.9
1972	91,805	17,681	2,873	106,613	16.6
1973	111,430	15,150	4,052	122,528	12.4
1974	109,472	15,970	5,833	119,609	13.4
1975	79,957	12,012	2,953	89,016	13.5
1976	89,447	14,285	2,654	101,078	14.1
1977	91,147	19,307	2,003	108,451	17.8
1978	97,935	21,135	2,422	116,648	18.1
1979	100,262	17,518	2,818	114,962	15.2
1980	83,853	15,495	4,101	95,247	16.3
1981	88,450	19,898	2,904	105,444	18.9
1982	61,567	16,663	1,842	76,388	21.8
1983	67,584	17,070	1,199	83,455	20.5

Source AISI

CBO does not acknowledge that an offsetting factor is a gradual increase in the value of steel products shipped, as steel users have increased their demand for higher value, lighter high strength and treated steels.

While the CBO alludes to the impact of declining "steel intensity," the conclusion is hardly consistent with its optimistic econometric analysis showing 111-115 million tons of apparent consumption by 1989.

Growth of Mini-Mills

In general, mini-mills make and ship rod and other billet-related products. They now account for about 16% of U.S. production (and not the 18% asserted by CBO). Mini-mills do not produce anything like a full range of steel mill products. They do not, for example, produce any sheets or tubular products and they produce only a limited range of plates and heavy structurals. Moreover, they will not be able to expand their product lines into heavier shapes or flat rolled products without major facility investments. Their growth in the past 10-15 years, however, has been rapid. It has been at the expense of both imports and other domestic steel producers and is due, in part, to their concentration on lower value, high volume, limited product lines. However their increased market share in recent years has not been a major factor in the "deteriorating performance" of the basic steel companies.

But comparing the position of mini-mills to integrated carbon steel producers is an invalid comparison. If CBO is truly interested in assessing the competitive position of the U.S. integrated carbon steel industry, it should draw comparisons with the major integrated carbon steel industries of the EC and Japan, which together with the U.S., still account for 70-75% of free world raw steel production. Comparisons with producers in developing countries that are almost totally subsidized, are less relevant.

CBO STATEMENT ON EFFECT OF STEEL QUOTAS ON PRICES

CBO has developed an econometric model attempting to assess the effects of H.R. 5081/S. 2380 on prices, demand, shipments, import share, and employment. From this model, CBO has made the following projections of price increases, without a quota, and with one in place.

Dollars Per Net Ton

Average Price	1983 Actual	1984*	1985	1984 to 1985 Increase*	1986	1985 to 1986 Increase*
Base case (no quota)	$484	$480-485	$564	16.6%	$607	7.6%
H.R. 5081/S.2380 (15% quota)	$484		$613	26.6%	$657	7.2%

Source CBO

* Data provided by AISI from average realized prices for first 6 months of 1984. Source, World Steel Dynamics (WSD)

AISI RESPONSE

CBO Estimates for 1985 and 1986 Are Not Realistic or Consistent With Those of Other Analysts

Steel industry average realized prices were approximately $480 to $485 in the first half of 1984, according to data from the World Steel Dynamics model. During that period, average pre-tax costs were about $483 according to WSD. This suggests the industry operated close to the break-even point in the first half of 1984. Industry financial data tend to confirm this. The CBO report forecasts an increase in domestic steel prices of about 16.6% in 1985 without a quota, a remarkable projection given the overhang of world steel capacity on the market, only modest recovery in the U.S. demand and the continuing intense competition in the U.S. market.

Although the steel industry needs and could utilize the additional funds such an increase would provide to it, on the basis of past experience increased price realizations of this magnitude are highly unlikely, absent the elimination of the price depressing effect of dumped and subsidized foreign steel, and the intense competition among U.S. producers.

CBO has projected the rate of inflation at 5%. Assuming a corresponding 5% increase in U.S. carbon steel pretax costs (from the 1984 level set forth in the WSD model), this would increase average costs to a level of approximately $504-$509 per ton in 1985.

The CBO realized price projection of $564 per ton without a quota, would produce 1985 pretax profits of $55 to $60 per ton, or $4.6 to $5 billion, at the level of shipments projected by CBO. AISI knows of no serious analyst in or outside the steel industry who is projecting profits of this magnitude in 1985, without quantitative restraints.

With a quota in place in 1985, the CBO projects that average prices will reach $613 per ton, a level about 26.4% higher than the level of 1984 realized prices estimated by WSD. Given the above average estimated costs of $504 to $509 per ton in 1985, we calculate that at CBO's projected price level, with a quota, pretax profits next year would be $8.7 to $9.1 billion. Either with quotas or without them, CBO appears to have solved almost all the near term capital and modernization problems of the steel industry. CBO has accomplished this by estimates of price increases so high compared to their present levels, as to be totally inconsistent with those of most analysts and to approach the absurd.

By 1986, without a quota, CBO projects steel prices will rise about 25.7% above the WSD estimate of their current level. According to CBO, a 15% quota would cause prices to rise about 37% above the WSD estimate of the current realized price level.

CBO Does Not Acknowledge the Offsetting Benefits of Quantitative Limitations

CBO says that in 1989, average prices would be 9% higher with the quota than without it.[1]

The CBO analysis emphasizes the potential price increases resulting from quotas. CBO's analysis should also recognize the "costs" of foreign steel. While the consumer may temporarily enjoy lower prices due to imports that are subsidized or dumped, there are substantial costs imposed on the balance of the U.S. economy.

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[1] In its prehearing brief before the U.S. International Trade Commission, the U.S. Federal Trade Commission estimated an increase in domestic prices of $5 per ton as a result of a 15-percent quota on steel imports. A $5 per ton increase is less than a 1-percent increase in domestic steel prices.

A recent Congressional Research Service study concluded that each dollar of domestic steel industry sales supports an additional $1.20 of activity throughout the rest of the economy. Also, each direct job in domestic steel supports an additional 2.35 jobs with suppliers, retail and wholesale trade, and government. Government revenues are also affected, as each $1000 in domestic industry sales generate direct and indirect taxes amounting to $473.

The following summarizes the estimated "cost" to the U.S. economy from steel imports that exceeded 15% of the market in 1983:

Steel Industry Shipments Lost:	4.6 Million Tons
Steel Industry Sales:	$2.3 Billion
Total Impact on GNP:	$5.1 Billion
Government Taxes:	$1.1 Billion Lost
Unemployment Benefits:	$350 Million Paid
Jobs, Direct & Indirect:	62,000 Lost

The above summary does not take into account the total injury imports caused from price and volume suppression in 1983, only the increment of imports exceeding 15% of consumption.

CBO's estimates that the difference in domestic industry revenues between the quota and non-quota cases amounts to $12.8 billion in 1989.

Using the Congressional Research Service analysis, the benefit to the economy from CBO's quota case would be:

Increased Steel Industry Sales:	$12.8 Billion
Total Impact on GNP:	$28.0 Billion
Increased Government Taxes Collected:	$ 6.1 Billion
Increased Jobs, Direct & Indirect:	119,000

The impact of increased tax collection alone would nearly equal the "cost" described by CBO. Add to that the spin-off effects of keeping $28 billion in economic activity, 119,000 jobs in this country and the long term benefit of complete modernization and rationalization of one of the nation's basic industries. Clearly the balance of economic benefit outweighs the cost of removing the price and volume suppression associated with dumped and subsidized foreign steel.

CBO Report Does Not Recognize Reduction in Price Levels Which Continue in 1984

In its report, CBO provided little information on recent prices and costs. To provide some perspective on this, listed below are WSD model estimates of realized prices and costs for 1981 through the first half of 1984.

		$ Per Net Ton Shipped		
Year	U.S. Operating Rate	Domestic List Price	Realized Price	Pretax Cost at Actual Operating Rate
1981	85.68 %	$522.96	$514.99	$494.90
1982	54.54	$548.57	$516.53	$579.77
1983	66.44	$553.75	$474.02	$520.72
1984				
Jan.			$476	$490
Feb.			476	486
March			476	478
April			483	480
May			483	483
June			483	481

Source: WSD

The difference between CBO's projection of a $564/ton price level in 1985 without a quota, and $613 with a quota is about $49 per ton, or 8.7% higher than CBO's projected price level without a quota. We have already pointed to the inconsistency of these figures with other estimates. But applying CBO's projected percentage increase of 8.7% to WSD's current estimated realized price of $480-485 per ton would result in a 1985 price level of $527/ton. This is only $11 or 2.1% higher than the realized price level which WSD estimates actually occurred in 1981-1982. Furthermore, the price level of $527/ton is substantially lower ($37/ton) than CBO's price estimate without a quota, and $86/ton lower than CBO's price estimate with a quota.

CBO STATES THE U.S. INDUSTRY HAS LOST COMPARATIVE ADVANTAGE

CBO says that "by and large," the competitive problems of traditional American steel companies reflect adverse cost trends and a shift in comparative advantage away from the United States.

AISI RESPONSE

CBO Did Not Recognize Cost Reductions Which Occurred in 1983 and 1984

Present cost relationships show that it is incorrect to contend that the U.S. industry can no longer compete in its home market. Second quarter 1984 data from the World Steel Dynamics carbon steel model show that even with current misaligned exchange rates the U.S. steel industry is now cost competitive in the U.S. market. This is shown below:

Costs per net ton shipped*
2nd Quarter 1984 (at Actual Operating Rates) 1/

	U.S.	Japan	West Germany	France	U.K.
Labor Costs	$137.61	$ 95.98	$124.28	$126.74	$ 90.33
Raw Materials Costs	301.69	255.33	242.62	221.18	255.33
Financial Costs	38.76	96.35	49.73	75.19	51.67
Total	$478.06**	$447.66	$416.63	$423.11	$397.33
Dec. 1983 Entry Costs (duty, freight, handling) Into U.S. Market		$ 74.61	$ 70.76	$ 70.76	$ 70.76
Landed Costs in U.S., before Profit	$478.06	$522.27	$487.39	$493.87	$468.09

* Source: Table 5, World Steel Dynamics, Steel Strategist #9, February 1984-- Paine Webber Mitchell Hutchins, Inc.

** More recent data on pretax costs from the WSD model show that total costs for the 2nd quarter 1984 average $481 per net ton, due to a lower actual operating rate than earlier estimated. This however does not change the conclusion that the U.S. industry is generally cost competitive in its home market.

1/ The U.S. advantage would be less if each industry were able to operate at or close to capacity. Since 1975, low operating rates have been a serious burden for all major steel industries, but the U.S. industry, except for 1982 and 1983, has operated at consistently higher levels of capacity utilization than its major competitors. Over a long period of time, potential efficiency

The domestic industry's competitive position has improved substantially since 1982, due to a reduction of about $100 per ton in pre-tax costs (approximately 17%) according to WSD. CBO did not acknowledge in its report this major reduction in costs.

CBO Did Not Acknowledge Most Imports Have Been Entering the U.S. at Prices Below Costs of Productions

The average value of steel imports entering the U.S., listed below, show that steel import values continue to be well under costs of production (per net ton shipped, as set forth on previous page) for most of the countries exporting to the United States. This is true for imports from both developed and developing countries, in 1983-84.

Average Value of Imports*

Year	Dollars per net ton
1983	$374.48
First Quarter 1984	$362.77

* Source: U.S. Bureau of the Census -- FOB Value

CBO Did Not Recognize Recent Gains in U.S. Labor Productivity

Latest data set forth below show that the U.S. steel industry ranks with Japanese producers in terms of labor productivity at actual operating rates for carbon steel production by integrated producers. Given the inability

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(cont'd.)

from a potentially high rate of capacity utilization becomes meaningless as a measure of efficiency, if market demand does not produce a sufficiently high level of utilization. Persistent excess capacity represents a managerial error which the market will not condone, regardless of the potential efficiency of the facilities which are idle. Given the persistent underutilization of capacity in the E.C. and Japan, the use of a "standard" operating rate rather than an actual rate to measure efficiency against that of the U.S. is meaningless.

of the U.S. industry to invest sufficiently to fully modernize, its carbon steel labor productivity represents a solid performance in comparison with the results achieved by foreign industries in newer plants built with government support.

Labor Productivity

(Manhours Per Net Ton Shipped at Actual Operating Rates)

	U.S.	Japan	West Germany	France	U.K.
1976	8.79	10.11	11.12	14.89	19.17
1977	8.95	9.98	12.57	14.26	21.26
1978	8.12	9.55	11.67	12.62	21.56
1979	8.29	8.55	9.85	11.35	18.58
1980	8.31	8.30	9.98	10.14	37.35*
1981	8.07	8.49	9.95	10.24	13.50
1982	7.84	8.07	11.08	10.83	13.35
1983 3Q Avg.	6.69	7.82	10.92	11.03	10.63
1983 3Q	6.48	7.28	11.42	11.62	11.31
Annual Rate of Improvment	+1.9%	+2.2%	+2.8%	+3.2%	+3.7%

Source: WSD
* Strike Year

The WSD data on carbon steel productivity are believed to be the most accurate available public data. In the case of Japan, for example, they are based upon official government data adjusted for comparable product mix, including contracted-out workers, but excluding contract construction workers. They are cross-checked against actual plant data.

CBO omitted any comment in its report on the recent substantial increase in productivity which has occurred in the U.S. industry.

CBO COMMENTS ON STEEL INDUSTRY INVESTMENT

CBO queries why integrated steel firms have such difficulty achieving the level of investment they claim they need, saying the problem cannot be blamed on capital markets, but instead on dispersion of investment among numerous plants, lacking market focus, and producing low rates of return

AISI RESPONSE

What CBO omits saying is that for two decades, until 1982, the U.S. industry was the most profitable major integrated steel industry in the world, and that it invested substantially more in steel operations than it derived in cash flow from those operations. Due to massive plant shut-downs, the U.S. industry did reduce its capacity by 35 million tons in just a few years, a capacity loss about double the current size of the British, Canadian or Korean steel industries. Although developing country steel industries continue to install steel capacity -- much of it not justified economically -- various kinds of capacity reductions are occurring around the world among developed country steel industries -- even in Japan. Typically, however, this rationalization process is being subsidized by governments, in sharp contrast to the rationalization occurring in the U.S. industry, which is absorbing its own shut-down costs. In the last two years, the U.S. industry's financial position has deteriorated sharply. By year-end 1983, the industry had a debt to equity ratio of more than 80%, and a decline in equity amounting to more than $5 billion. Existing capital expenditures are now disbursed over fewer plants -- at a very heavy cost in both human and financial terms.

CBO says that industry investment has been dispersed over too many plants. The only way to solve this problem is either to expand the capital funds available for investment -- which increasing imports have prevented the industry from doing -- or shut down plants -- which the industry has been compelled to do by losses stemming from increasing imports during the worst recession in the industry's history. In the 1970s, most of the major world steel industries were expanding, adding to the excess capacity in the world, while the U.S. industry did not. The U.S. industry, which does not have sufficient capacity to supply the domestic market in a period of only moderately strong demand, had some hope in the 1970s that a combination of market forces and an enlightened public policy response to dumped and subsidized imports would permit existing plants to be modernized. What has occurred are shut-downs of many facilities, seriously impairing the corporate financial structure of steel companies.

CBO, however, is pretending in its report that the world steel market has functioned in the past as it should, and still is functioning, allocating capital and rewarding the relatively efficient with adequate profits and stable employment -- when it is not. From 1976 through 1981, the U.S. steel industry, based upon its profits, should have been one of the most attractive targets in the world for integrated steel investment. But Western world data show that the industries with the worst profit performance, utilizing massive assistance from their governments, have been among the most aggressive in undertaking capital investment. As long as inefficient foreign producers are artificially maintained by a life-support system of massive government subsidies, it is difficult for private producers to earn adequate profits to attract funds for investment. Thas it what has happened to U.S. steel producers.

We also note that integrated carbon steel investment, worldwide, has shown a far lower return on investment in every industrial country than the average for all manufacturing. Yet almost all advanced industrial countries regard their domestic production of integrated carbon steel . . . the overwhelming share of their domestic supply . . . as vital to their national interest. These facts are easy to substantiate. Yet CBO seems to infer the U.S. should react differently in this regard.

Steel is a vital part of our economy -- the fourth largest industry in the United States. But its future prospects will be determined in large measure by our Government's response to the flood of dumped and subsidized imports.

The steel industry needs government action to re-establish the conditions by which the United States can preserve a competitive, privately held steel industry, in a world industry for which foreign government control and direction of steel industries has become the norm.

STATEMENT OF JAMES J. WHITSETT, PRESIDENT, ANTI-FRICTION BEARING MANUFACTURERS ASSOCIATION

The Anti-Friction Bearing Manufacturers Association ("AFBMA") hereby urges the Subcommittee to exclude bearing-quality steel from the coverage of H.R. 5081, if that legislation is endorsed in any form by the Subcommittee.

Absent such an exclusion, H.R. 5081 would eliminate much of the supply of raw materials essential to the important U.S. bearing industry. Bearing quality steel wire rod and wire are imported of necessity by America's bearing manufacturers because U.S. domestic steel production is non-existent or inadequate to meet the bearing industry's needs. Therefore, restrictions on these imports would cripple the U.S. bearing industry. On the other hand, exclusion of bearing-quality steel from any quotas or import restrictions would not diminish any benefit from such relief to the U.S. steel industry because bearing-quality steel is imported in miniscule quantities relative to imports of other types of steel.

The AFBMA is a trade association composed of 48 companies which manufacture ball and roller bearings throughout the United States.[1] Our members manufacture in the aggregate over 90 percent of all domestically produced ball and roller bearings. The domestic bearing industry employs approximately 50,000 people, and total domestic production of ball, roller and tapered bearings is approximately $3 billion annually.

Bearings are used in a wide variety of critical defense and civilian applications. Bearings are key components of aircraft, submarines, missiles and other weapons systems, and commercial and industrial applications include computers, rolling mills, oil exploration machinery, farm machinery and all aspects of transportation. Indeed, virtually any machine with moving parts that is manufactured today uses bearings. Therefore, it would be extremely harmful to American industry and the national defense to sever the raw-materials lifeline to the United States bearing industry.

The U.S. bearing industry uses as its raw material bearing-quality steel, in the form of wire rod, wire, bar, and tube. Were imports of such bearing-quality steel to be substantially curtailed by legislation such as H.R. 5081, it would injure seriously, perhaps irreparably, the important domestic bearing industry at a time when that industry is itself seriously threatened by imports. In fact, the U.S. bearing industry faces greater import penetration than that faced by the steel industry.[1] To compete with foreign producers, the U.S. bearing industry must have equal access to high-quality competitively priced bearing steel. Indeed, with respect to wire rod and wire, the bearing industry must rely on imports because the U.S. steel industry simply does not produce the bearing steel required by the bearing industry.

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[1] A list of our members is attached hereto.

Nor is the U.S. steel industry in a position to meet the needs of the bearing industry in the near future. Increasingly stringent quality requirements have been imposed by those that use bearings for computers, military equipment, automobiles, and other products, and this has resulted in very high quality requirements for bearing-quality steel, particularly wire rod and wire. Accordingly, manufacture of these products is an extremely costly and time-consuming process that requires considerable experience in applied technology to perfect. Such bearing steel today must have extreme

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1/ Today more than 50 percent of ball bearings by volume consumed in the U.S. market are produced by foreign competitors, a degree of foreign penetration much greater than that faced by the steel industry (or domestic automobile or machine tool industries). To deny U.S. bearing manufacturers their essential raw materials would further exacerbate this precarious situation.

cleanliness, good hardenability, responsiveness to thermal treatment, superior surface quality and freedom from inclusions. Such factors have proved to be strong disincentives to U.S. steel producers, and it is highly unlikely that the U.S. steel industry would have the ability or the desire to develop the necessary experience, technological sophistication, and expensive equipment to supply sufficient amounts of bearing steel wire rod and wire in the near future, especially in light of the relatively small quantities in which bearing steel is consumed.

Indeed, bearing-quality steel of all types is imported and consumed in such small quantities relative to the importation or consumption of other types of steel that the substantial harm to the United States bearing industry caused by severe import restrictions would be doubly tragic because it could not have any noticeable benefit for the U.S. steel industry. In 1983, it appears that less than 50 thousand tons of the principal grade of bearing-quality steel was imported.1/ This compares with 17 million tons of total carbon and alloy steel imports and 82 million tons of total U.S.

1/ Source: Numbers presented by SKF Steel, Inc., in the Section 201 Steel proceedings, based on official U.S. import statistics, show that 1983 imports of Grade 52100 bearing steel wire rod, bar and tube were under 40 thousand tons. AFBMA estimates that 1983 imports of bearing steel wire were about 10 thousand tons.

consumption of steel.[1] Thus, bearing steel represented less than one-tenth of 1% of total steel consumed in the United States last year. Certainly, the exclusion of this small amount of bearing steel from any quotas or import restrictions pursuant to H.R. 5081 could not significally affect or detract from the impact of such legislation on the U.S. steel industry.

The exclusion of bearing-quality steel from any legislation affording steel import relief would be consistent with the past decisions of the International Trade Commission, the Commerce Department and the Office of the U.S. Trade Representative, which have excluded bearing steel from trade relief in prior proceedings involving the steel industry.[2] In each instance bearing steel has been excluded from import relief because of the limited domestic production of bearing steel and the hardship to the U.S. economy and the domestic bearing industry that would have ensued from restrictions on imported steel. The U.S. bearing industry has consistently demonstrated that no injury to the U.S. steel industry could

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1/ Based on recent import statistics reported by the staff of the International Trade Commission in the Section 201 Steel proceedings.

2/ International Trade Comm'n Inv. No. TA-201-6 (1976); Inv. No. TA-203-2 (1977); Inv. No. TA-201-48 (1983); Commerce Department Trigger Price Mechanism ruling (see 45 Fed. Reg. 76,725 (1980)).

occur as a result of such exclusion because bearing steel represents only a miniscule portion of total steel imports.

Conclusion

The American bearing industry is a large and essential element of the American economy, with production facilities located in all areas of the country. It is itself threatened with rapidly growing import competition that has forced lay-offs and plant-closures over the past decade. Extreme hardship would inure to the United States bearing industry -- and to key sectors of the U.S. economy -- if the bearing industry's ability to purchase imported bearing steel -- particularly wire rod and wire -- is curtailed by any import legislation, because the bearing industry must have such steel in order to continue operations and to compete effectively with import competition that uses as its raw material that same steel.

The exclusion of bearing steel would be easy to implement[1/] and would not significantly diminish any benefit that steel import legislation might bestow on the U.S. steel

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1/ Proposed amendments to the Bill as introduced that would accomplish such exclusion are attached.

industry. Bearing steel is different in composition and manufacture from other types of alloy steel. Because very little steel, relatively, is needed to make bearings, the total volume of imports of bearing-quality steel is quite insignificant relative to the imports of other types of steel.

It is for these reasons that there is consistent and strong historical precedent for exclusion of bearing steel products from steel import restrictions. The AFBMA submits that this Subcommittee should follow these precedents, and should exclude bearing-quality steel from H.R. 5081.

Respectfully submitted,

James J. Whitsett
President
Anti-Friction Bearing
Manufacturers Association

Of Counsel

Harvey M. Applebaum
Timothy A. Harr
COVINGTON & BURLING
Washington, D.C.

Dated: August 3, 1984

AFBMA MEMBER COMPANIES
JUNE 1984

THE ABBOTT BALL COMPANY
Railroad Place
West Hartford, CT 06110

ACCURATE BUSHING COMPANY
A Subsidiary of Ex-Cell-O Corp.
443 North Avenue
Garwood, NJ 07027

AETNA BEARING COMPANY
a Katy Industries Subsidiary
4600 W. Schubert Avenue
Chicago, IL 60639

AMERICAN KOYO BEARING MFG. CORP.
Div. of Koyo Corporation of USA
Orangeburg, SC 29115

AMERICAN ROLLER BEARING COMPANY
150 Gamma Drive
Pittsburgh, PA 15238

ANTI-FRICTION PRODUCTS DIVISION
Warner & Swasey Company
P. O. Box 644
Bessemer City, NC 28016-0644

THE BARDEN CORPORATION
200 Park Avenue
Danbury, CT 06810

BRENCO, INCORPORATED
P. O. Box 389
Petersburg, VA 23804

C & S BALL BEARING MACHINERY CORP.
956 Old Colony Road
Meriden, CT 06450

EMMCO DEVELOPMENT CORPORATION
43 Belmont Drive
Somerset, NJ 08873

FAFNIR BEARING
Division of Textron, Inc.
P. O. Box 1325
New Britain, CT 06050

FAG BEARINGS CORPORATION
118 Hamilton Avenue
Stamford, CT 06904

FEDERAL MOGUL-CORPORATION
P. O. Box 1966
Detroit, MI 48235

FRANTZ MANUFACTURING COMPANY
Steel Ball Division
West Lincolnway
Sterling, IL 61081

THE FREEWAY CORPORATION
9301 Allen Drive
Cleveland, OH 44125

GENERAL BEARING CORPORATION
304 Route 303
Blauvelt, NY 10913

HARTFORD BALL COMPANY
Div. of Virginia Indus., Inc.
951 West Street
Rocky Hill, CT 06067

HEIM DIVISION
Incom International Inc
P. O. Box 430
Fairfield, CT 06430

HOOVER-NSK BEARING COMPANY
P. O. Box 1507
Ann Arbor, MI 48106

HOOVER UNIVERSAL, INC.
P. O. Box 113
Saline, MI 48176

HYATT CLARK INDUSTRIES, INC.
1300 Raritan Road
Clark, NJ 07066

INA BEARING COMPANY, INC.
3399 Progress Drive
Bensalem, PA 19020

INDUSTRIAL TECTONICS, INC.
A subs. of A. Johnson & Co., Inc.
P. O. Box 1128
Ann Arbor, MI 48106

KAYDON CORPORATION
2860 McCracken Street
Muskegon, MI 49443

KENDALE INDUSTRIES, INC.
7600 Hub Parkway
Valley View, OH 44125

KEYSTONE ENGINEERING CO.
1444 South San Pedro Street
Los Angeles, CA 90015

L & S BEARING COMPANY
P. O. Box 754
Oklahoma City, OK 73101

LYDALL, INC./SUPERIOR BALL
100 Wellington Street
Hartford, CT 06106

McGILL MANUFACTURING CO., INC.
909 N. Lafayette Street
Valparaiso, IN 46383

MORSE INDUSTRIAL CORPORATION
Subs. of Emerson Electric Co.
620 S. Aurora Street
Ithaca, NY 14850

MPB CORPORATION
Subs. of Wheelabrator-Frye
Precision Park
Keene, NH 03431

NATIONAL BEARINGS COMPANY
P. O. Box 4726
Lancaster, PA 17604

NEW DEPARTURE HYATT BEARINGS
Div. of General Motors Corp.
2509 Hayes Avenue
Sandusky, OH 44870

NEW HAMPSHIRE BALL BEARINGS, INC.
Route 202
Peterborough, NH 03458

NMB CORPORATION
9730 Independence Ave.
Chatsworth, CA 91311

NN BALL & ROLLER, INC.
800 Tennessee Rd.
Erwin, TN 37650

NTN Bearing Corp. of America
NTN ELGIN CORPORATION
1500 Holmes Road
Elgin, IL 60120

PT COMPONENTS, INC.
Link-Belt Bearing Division
P. O. Box 85
Indianapolis, IN 46206

REXNORD INC.
Mechanical Power Division
4701 W. Greenfield Ave.
Milwaukee, WI 53214

ROLLWAY BEARING DIVISION
Lipe-Rollway Corporation
Box 4827
Syracuse, NY 13221

ROTEK, INCORPORATED
1400 So. Chillicothe Rd.
Aurora, OH 44202

THE SCHATZ MANUFACTURING CO., INC.
P. O. Box 1191
Poughkeepsie, NY 12602

W. S. SHAMBAN & COMPANY
711 Mitchell Rd/PO Box 665
Newbury Park, CA 91320

SKF INDUSTRIES, INC.
1100 First Ave.
King of Prussia, PA 19406

THOMSON INDUSTRIES, INC.
Manhasset, NY 11030

THE TIMKEN COMPANY */
1835 Dueber Avenue, S.W.
Canton, OH 44706

THE TORRINGTON COMPANY
Subs. of Ingersoll-Rand Co.
P. O. Box 1008
Torrington, CT 06790

TRW Bearings Division
TRW, Inc.
402 Chandler Street
Jamestown, NY 14701

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*/ THE TIMKEN COMPANY does not support the attached Statement.

Proposed Amendment to H.R. 5081 (as introduced) to Eliminate Bearing Steel Products

In Section 3, subsection (5)(S), delete:

"610.4500" and "610.4600."

In Section 3, subsection (5)(W), insert after "609.4530" the following:

"(but excluding tool steel described in headnote 2(h)(vii) of subpart B, part 2, of Schedule 6 of the Tariff Schedules of the United States)"

and insert after "609.4560" the following:

"(but excluding tool steel described in headnote 2(h)(vii) of subpart B, part 2, of Schedule 6 of the Tariff Schedules of the United States)."

STATEMENT OF EDWARD L. OVERTREE, GENERAL COUNSEL AND SECRETARY, CF&I STEEL CORP.

WRITTEN STATEMENT OF INFORMATION PERTINENT TO H.R. 5081 TO IMPOSE STEEL IMPORT QUOTAS

I. INTRODUCTION

CF&I Steel Corporation ("CF&I") hereby submits this statement of information regarding carbon and alloy oil country tubular goods and casing ("OCTG") pursuant to the invitation contained in the Release No. 31 of this Subcommittee issued on March 28, 1984. On November 30, 1982, CF&I submitted personal testimony to this Subcommittee on this same subject. The disastrous situation CF&I described then has gotten even worse.

Imports of OCTG have increased sharply since 1978, both in absolute terms and relative to domestic production. During the period 1979-1982, inclusive, import sales increased 377% absolutely and 200% in market share. And, notwithstanding the 87% decline in U.S. production of OCTG in 1982, OCTG imports from Japan actually kept increasing until October, 1982 and decreased only 4% for the entire year of 1982.

The domestic industry has been seriously injured, and is threatened with further serious injury, by these increasing imports. For example:

-- Since 1978, the domestic OCTG industry has lost almost half of its market share.

-- Since 1978, CF&I has lost over two thirds of its market share.

-- This loss in market share has led to a significant decline in production. In 1982, domestic production declined by 59% and CF&I production declined by 87% from 1981, and the industry operated at approximately 40% of capacity. In 1983, domestic production fell an additional 62% for a total decrease of 84% since 1981!

-- There has been staggering loss of employment in the industry. CF&I has been forced to reduce its OCTG work force by nearly 90% or approximately 900 employees on the average during the last 12-month period. Even those employees remaining have only worked only three months in an entire year.

-- Both CF&I and the domestic industry have incurred unprecedented financial losses.

-- Both CF&I and the domestic industry have already been forced to forego important quality and development projects and to delay the largest capital investment in their history.

-- The injury will only worsen in the future because of the following combination of factors:

  - record high levels of inventories, $1,000,000,000 worth, of Japanese OCTG in the United States, and
  - the current decline in overall U.S. demand.

These increasing imports are the substantial cause of serious injury to the domestic industry. Because import penetration has significantly increased over the last five years, the domestic industry has lost almost half of its market share and CF&I has lost over two-thirds of its market share. Both losses in share are directly attributable to the tremendous increase in Japanese imports, which in 1982 accounted for 48% of import sales. (In 4th Quarter 1982 - 53%). A majority of the inventory has been shipped to the U.S. on free consignment or a sale-or-return basis; i.e., financed by the Japanese at no cost to the distributors. The Japanese have aggressively marketed these products and have specifically targeted the geographic area that has been CF&I's traditional marketing area. Further, the Japanese, Germans and Italians have repeatedly attempted substantially to undercut CF&I and other domestic prices.

Despite almost no demand in the U.S., the Japanese manufacturers produced OCTG at the same high levels and shipped the bulk of their OCTG to the United States throughout 1982. As a result, they have built up a huge overhang of inventories in the U.S. of unsold Japanese OCTG, which has already reached alarming size, over $1,000,000,000 worth. If import restrictions are not imposed expeditiously, they will come too late to benefit the domestic industry. Once OCTG demand revives, the Japanese will succeed in their attempts to dump their huge inventory on the U.S. market. And it will be too late for relief from an Anti-Dumping Petition if $1,000,000,000 worth of Japanese OCTG is dumped, because CF&I will be out of business long before the Petition can be heard. See Appendix K for evidence of price cutting and inventory subsidization.

CF&I and the domestic industry seek a temporary respite from imports to regain their competitiveness and attain a strong market position over the long term. CF&I and the domestic industry have done and are doing everything within their resources to improve their position in the market through a comprehensive modernization and cost reduction program. As Section V reveals, the domestic industry's extraordinary investments in quality, product development and capital improvements are only part of this program; they have introduced innovative production programs and aggressive cost-cutting measures as well. However, the low sales volume attributable primarily to loss of sales and profits to Japanese imports has jeopardized the most critical elements of this program, which are the efficient utilization of CF&I's completely new round caster and completion of CF&I's all new OCTG mill that would be directly competitive with worldwide state-of-the-art mills. Thus, CF&I requests temporary relief from imports in order to maintain a level of sales that would generate the remaining investment capital it must have for its product development programs. This relief would enable CF&I to complete these programs and become a viable competitor over the long term. Clearly, the purpose for which CF&I seeks relief serves the objectives of Section 201.

II. THE DOMESTIC INDUSTRY

CF&I's only facility is located in Pueblo, Colorado. Other major manufacturers of OCTG are United States Steel, at Lorain, Ohio; Armco, Inc., at Houston, Texas; Jones & Laughlin

Steel, at Aliquippa, Pennsylvania; Lone Star Steel, at Lone Star, Texas; Republic Steel at Gadsden, Alabama and dozens of welded OCTG manufacturers. In addition, there are hundreds of companies that add threading, flanges and couplings to OCTG, located throughout the "oil patch" of Wyoming, Colorado, New Mexico, Kansas, Oklahoma, Texas and Louisiana.

III. ELIGIBILITY OF DOMESTIC OCTG INDUSTRY FOR IMPORT RELIEF

A. Imports of OCTG Have Increased Dramatically

Imports of OCTG increased markedly over the last several years. Customs Department statistics provide the best indication of these increasing import levels.

As Appendix A shows, sales of imported OCTG jumped from 591,000 tons in 1978 to 2,180,000 tons in 1982, representing a 271% volume increase over the period. The imported OCTG share of total U.S. sales rose from 19.2% in 1977 to 57.6% in 1982. Through February, 1984, imports are back up to a 55.7% market share.

Customs' figures also show the surge in Japanese imports over the last five-year period. From 1978 to 1982, Japanese exports to the U.S. increased by 684,000 tons, a 188% increase. The Japanese market share has increased by 18 percentage points, from 11.7% in 1978 to 27.6% in 1982.

B. The Domestic Industry Has Suffered Serious Injury As a Result of Increased Imports

1. Significant Idling of Productive Facilities

A comparison of the production figure for 1982 with the 1981 figure vividly demonstrates the critical extent of the injury resulting from increased import penetration. Domestic shipments declined 59% in only one year, from 4,241,000 tons in 1981 to 1,759,000 in 1982. In 1983, domestic shipments declined another 62%, for a total of 86% from 1981. See Appendix B.

This enormous decline in production has been accompanied by a steep decline in capacity utilization. The domestic industry was operating at 100% of capacity in 1981 as compared with a 41% rate for 1982 and 14.5% for 1983. See Appendix C.

2. Inability to Operate at a Reasonable Level of Profit

As Appendix D indicates, CF&I has incurred unprecedented losses. In 1982, CF&I's net operating loss on OCTG exceeded $13 million, and it suffered a further loss of $12 million in 1983. Although the domestic industry has invested over $1 billion in new OCTG facilities in the last five years, the lowered sales and operating losses have forced both the domestic industry and CF&I to decrease capital investment drastically in OCTG facilities and engineering expenditures. Armco cancelled a $660 million planned expansion and CF&I suspended a $160 million expansion. See Appendix E.

More significantly, CF&I's losses are of such magnitude and its financial situation is so critical that its survival is threatened. The decision of CF&I's shareholders to continue to provide critical financial support depends on whether they are reassured that CF&I can complete its programs aimed at enabling it to remain competitive with imports, especially the Japanese, over the long term.

3. Significant Unemployment or Underemployment

The most devastating effect of the increased OCTG imports has been the incredible loss of employment in the industry. CF&I has been forced to institute massive reductions in force, which are unprecedented in its 112-year history. Since the end of 1981, over 3,600 employees or over 65% of CF&I employees have lost their jobs, (*See* Appendix H) creating the high unemployment in Pueblo, which now stands at 10.2%. During the same period, an additional 1,100 workers have experienced periods of unemployment due to temporary mill closings and another 150 have been forced to work short weeks. All OCTG workers, except for brief periods, were out of work from June 30, 1982 to September, 1983. From September, 1983 to February, 1984, CF&I's OCTG mill was operating at no more than 25% of capacity. *See* Appendix I for the periods when CF&I's OCTG production facilities have been shut down.

The remaining employees have been impacted as well. CF&I has substantially reduced corporate officers' and all other salaries and wages, and has reduced or eliminated the fringe benefits of all employees, salaried and hourly. Total compensation payments have been reduced nearly 30%.

C. The Domestic Industry Is Threatened With Further Serious Injury

In addition to the serious injury already suffered by the OCTG industry, it is threatened with further serious injury. Indeed, further severe damage to CF&I is inevitable and imminent unless import relief is obtained, given the devastating combination of record levels of Japanese OCTG inventories in the U.S., increasing imports and the current downturn in both U.S. and worldwide demand for OCTG.

Because the Japanese steadily increased their exports to the U.S. during a period of decline in the market, Japanese OCTG inventories built up to unprecedented levels during 1982-83. In an attempt to move this tremendous inventory, the Japanese have introduced special pricing programs that offer OCTG discounts up to 60%[1]. To prevent an immediate further erosion of its market share and to ensure the viability of the CF&I distributor network, CF&I was forced, at great expense, to announce its own pricing discounts.

In view of these current market conditions and the trend of accelerating imports, the downward pressure on prices and CF&I's loss of sales to imports, especially the Japanese, are bound to continue and increase. It is apparent that unless import relief is granted, CF&I's situation will further deteriorate.

D. Increasing Imports Have Been The Substantial Cause of Serious Injury to the Domestic OCTG Industry

A comparison of the change in the imported and CF&I shares of the OCTG market over the last five years dramatically illustrates that increasing imports are the substantial cause of CF&I's injury. While the imported share of total U.S. sales of OCTG increased from 19.2% in 1978 to a 1982 share of 57.6%, (55.7% through 2 months of 1984), the domestic industry lost almost 50% and CF&I lost 70% of its market share. The Japanese market share more than doubled during this same period. Appendix L portrays this increasing Japanese dominance in the OCTG market at the expense of the domestic industry.

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[1] Appendix K contains evidence of the Japanese offers of 50%-plus discounts.

Due to the low prices of Japanese OCTG and the added downward pressure on prices caused by the extraordinarily high Japanese inventories, CF&I has not been able to raise prices at all. In fact, CF&I has been forced to follow the widespread price discounting of 35% or more. There can be no question that imports have been a substantial cause of the serious injury suffered by CF&I.

While the domestic industry was affected by the decline in demand in 1982 and 1983, imports have been the overwhelming cause of injury. Decline in demand has simply exacerbated the serious injury already suffered by the domestic industry as a result of increasing imports.

In 1982, total U.S. demand for OCTG declined by 42 percent, while the domestic industry's volume fell 58% and CF&I's fell 64%. It is apparent that the increased penetration of Japanese imports had as much effect on the domestic industry as the decline in demand.[2/]

[2/] In Appendix O, the analysis employed by then-Chairman Alberger of the International Trade Commission to determine whether decline in demand was a greater cause than imports of the decline in domestic auto industry sales was applied here. See Certain Motor Vehicles and Certain Chasis and Bodies Therefor, Investigation No. TA-201-44, 45 Fed. Reg. 85,194 at 85,201 (1980). Based on that analysis, increasing imports accounted for 31% of the domestic industry's loss in 1982.

Despite the decline in overall U.S. demand in 1982, Japanese OCTG imports continued at an all-time high. Further, even assuming the most optimistic circumstances -- that the market would fully recover and demand would immediately return to the record 1981 level -- CF&I would still be terribly injured. With its current market share of 1.8%, CF&I's sales would only amount to 117,000 tons. This would constitute a 39% drop in sales from the 1981 level. The domestic industry would have dropped 31%. It is evident, therefore, that imports have been as important cause of injury as the decline in demand during this recent period.

IV. INDUSTRY EFFORTS TO COMPETE

CF&I has embarked upon a $160 million program to maintain full competitiveness in the OCTG market. The program encompasses improving productivity, upgrading the quality of its current products, and reducing costs.

One indication of the depth of CF&I's commitment to this program is its extraordinarily high investment in quality and cost effectiveness development over the last five years. See Appendix H. These expenditures in relation to CF&I's net sales have been significantly higher than the national industry average of capital expenditures as a percentage of net sales.

The crucial element of CF&I's product development program is the design and construction of a new round caster and new OCTG mill. With this new caster and OCTG mill, CF&I will broaden its participation in the market and compete more effectively with imported OCTG.

CF&I has already invested over $120 million in this new product development program; an additional investment of $40 million will be required to complete development and introduce this new OCTG to the market. However, because of lowered revenues due primarily to the loss of sales and profits to the Japanese, CF&I has already been forced to suspend the program. A further decline in its sales may require CF&I to abandon the program entirely.

CF&I has also incorporated into its new OCTG caster and mill significant engineering advances that will make dramatic improvements in quality and yields and, at the same time, will result in markedly lowered production costs. While a tremendous amount has already been invested, completion of these important engineering programs will require further investments of a similar magnitude.

In addition to this significant commitment to improving quality, quantity and cost effectiveness, CF&I is engaged in other major efforts to increase productivity and upgrade quality. It has adopted a number of forward-looking production management programs to increase the efficiency of its manufacturing operations, to reduce product cost and to improve yields. CF&I has enjoyed additional benefits in cost, quality and employee morale from its employee participation in the Quality Circles Program. A task force is developing and implementing a five-year plan to improve productivity further and lower costs by such longer-term measures as the acquisition of computerization and machinery to further automate production.

Another major element of CF&I's comprehensive competitiveness program is its "Q-checked" quality campaign. The campaign has been extensive -- higher standards of acceptability have been applied at every phase of production. Non-destructive electronic testing of the full length of every length of OCTG has been installed at a cost of nearly $1 million per year. As a result of this program, the rate of "defect"-free shipments have increased to 96.3% of all shipments, and there has been a 75% drop in the number of warranty claims and customer complaints.

Through these and many other programs, CF&I has greatly increased the overall efficiency of its operations. In fact, in two years, the Company has lowered its break-even point by 40%, from 840,000 to 500,000 tons annually.

In short, CF&I, by taking these far-reaching measures and investing in important and necessary product improvements, is doing everything possible to improve its competitive position. However, the ability to generate sufficient capital to complete development of the new OCTG mill and other product development programs is essential to assuring its long-term competitiveness. The prospect of securing these funds is threatened by increasing imports, particularly given the current huge overhang of inventories of Japanese OCTG in the U.S. Unless CF&I and the domestic industry are granted short-term relief from these imports, they will be unable to finance these critical programs, or even survive.

V. RELIEF REQUESTED

As demonstrated above, CF&I and the domestic industry have been severely injured by imports of OCTG. Accordingly, they request that tariff or quota restrictions be imposed on imports of OCTG and also on the huge overhang of inventories of Japanese OCTG already imported into the U.S.

In the alternative, CF&I requests that the Japanese OCTG manufacturers be required either: (1) to collect the prices due on the inventory shipped on free consignment or sale-or-return; or (2) ship the inventory back to Japan until there are customers for it.

APPENDIX A

MARKET SHARES OF RETAIL SALES OF OCTG IN THE U.S.
(Thousands of Tons)
(1978-1984)

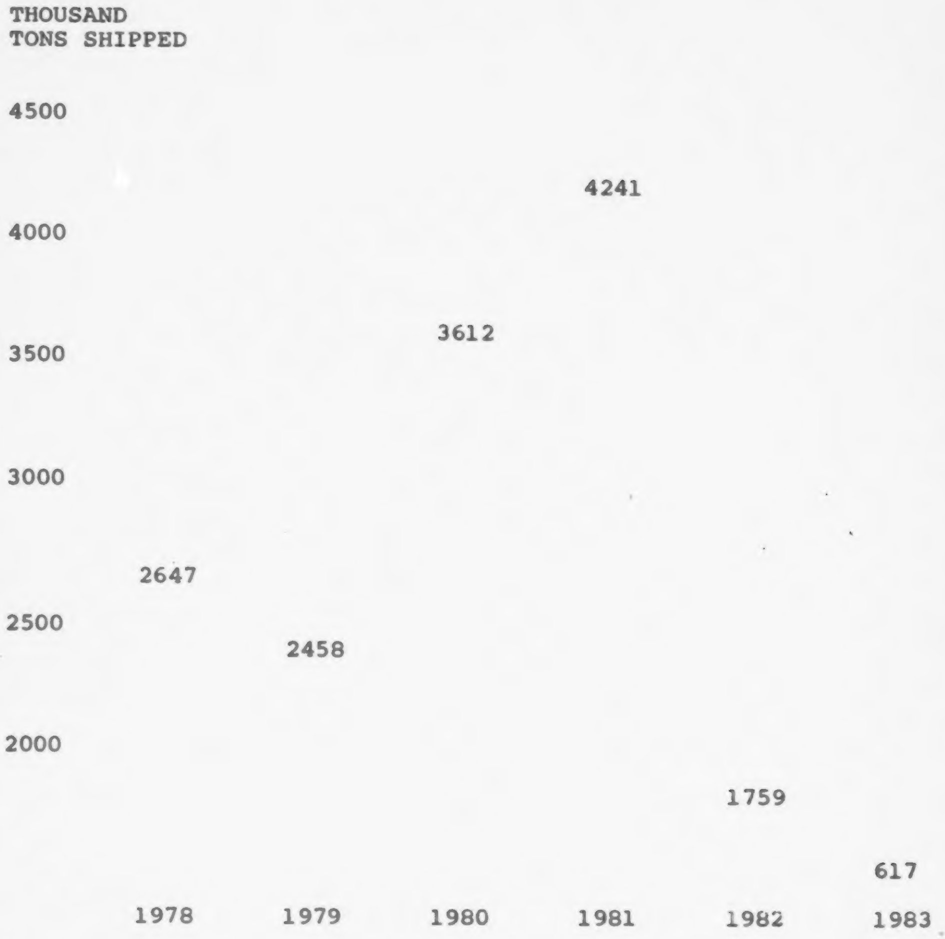
Year	Total U.S. Apparent Consumption	U.S. Tons	U.S. Share (%)	Imports Tons	Imports Share (%)
1978	3,083	2,647	80.8	591	19.2
1979	2,630	2,458	82.6	457	17.4
1980	4,514	3,612	77.0	1,036	23.0
1981	6,502	4,241	63.3	2,389	36.7
1982	3,786	1,759	42.4	2,180	57.6
1983	1,181	617	52.2	565	47.8
1984 (2 mos.)	397	176	44.3	221	55.7

Source: U.S. Customs Service, Department of Commerce

APPENDIX B

DOMESTIC SHIPMENTS OF OCTG

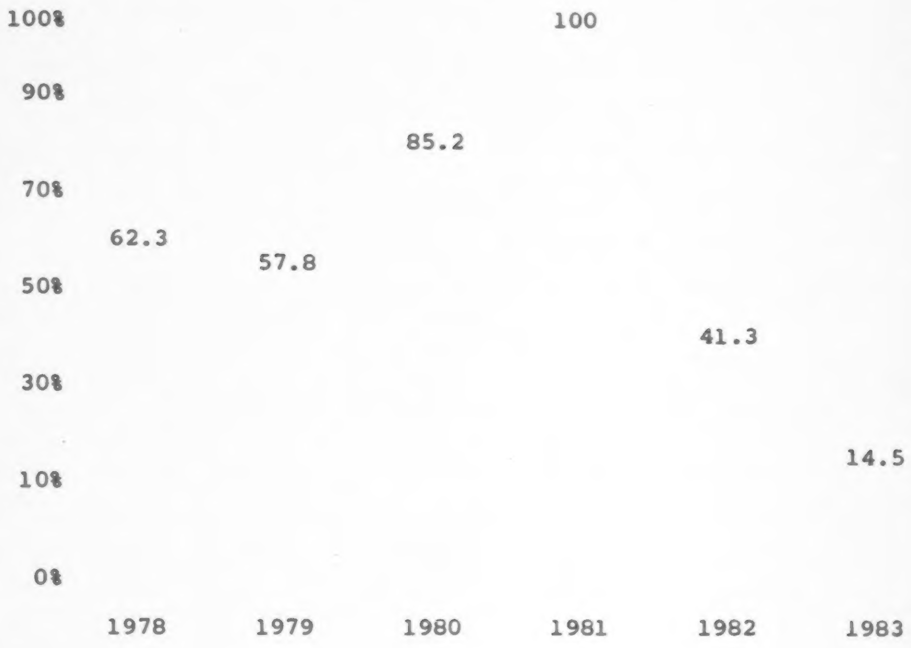
(1978-1983)



APPENDIX C

UTILIZATION OF DOMESTIC OCTG MANUFACTURING CAPACITY

(1978-1983)



UTILIZATION OF DOMESTIC OCTG MANUFACTURING CAPACITY

(Thousands of Tons)
(1978-1983)

Year	Annual Full Capacity	Tons Actually Produced	Percentage Utilized
1978	4,250	2,647	62.3
1979	4,250	2,458	57.8
1980	4,250	3,612	85.2
1981	4,250	4,241	100
1982	4,250	1,759	41.3
1983	4,250	617	14.5

APPENDIX D

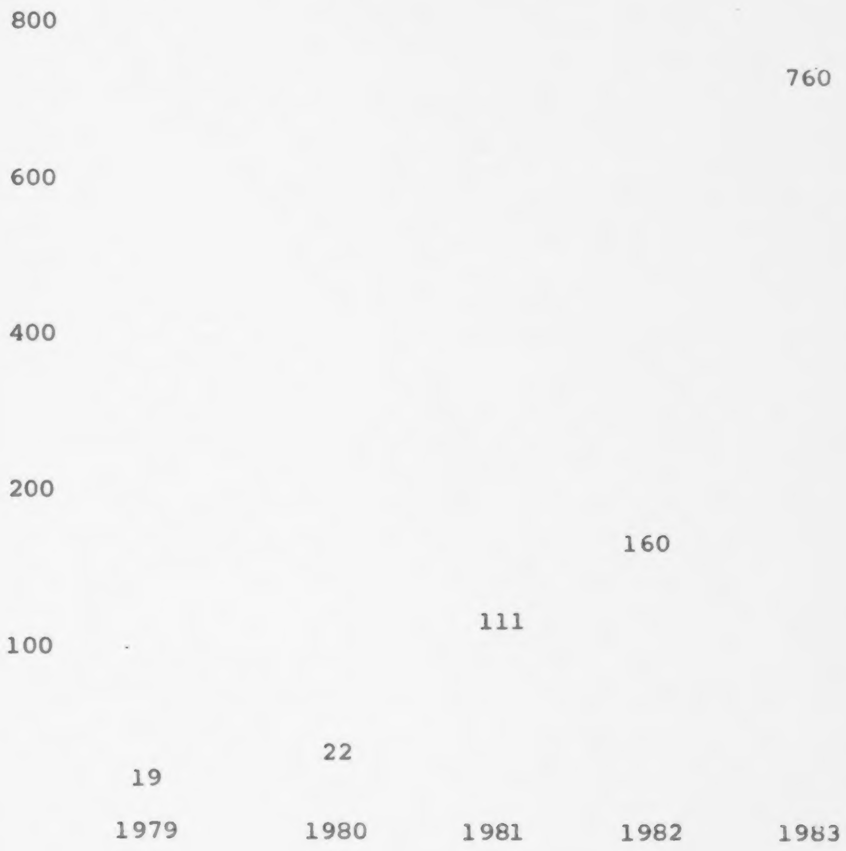
NET INCOME AND PROFITABILITY OF CF&I OCTG PRODUCTION

(1978-1983)

	1978	1979	1980	1981	1982	1983
Net Sales ($000 omitted)	129,501	130,920	173,007	262,801	107,098	25,150
Net Operating Profit (or Loss) ($000 omitted)	28,740	16,054	30,549	90,312	(13,490)	(11,994)
Percentage of Net Operating Profits (or Loss) to Net Sales	22.2	12.3	18.0	34.4	(12.6)	(47.7)

APPENDIX E

CAPITAL INVESTMENT IN UNITED STATES OCTG PRODUCTION FACILITIES
(Millions of Dollars)
(1979-1983)



Source:

Year	$ Millions
1979	19
1980	22
1981	111
1982	160
1983	760

Source: Wean-Demag Corp.

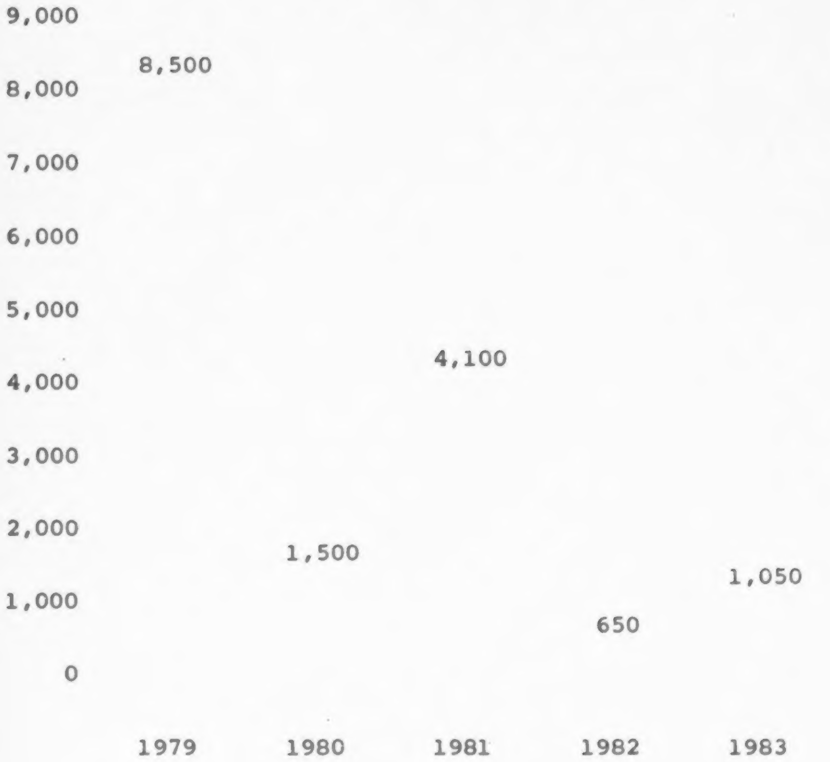
NEW INSTALLATIONS WHICH ARE TOTALLY OR PARTIALLY COMMITTED TO PRODUCTION OF OCTG AND WHICH HAVE BEEN OR ARE GOING TO BE COMPLETED BETWEEN JANUARY 1978 AND DECEMBER 1983

	PRODUCER	DESCRIPTION	ESTIMATED INSTALLED COST
1979	Pittsburgh Tube	OCTG Weld - Stretch Reducing Mill 2 3/8 - 4 1/2	$ 10,000,000
1980	Fort Worth Pipe	Quench & Temper + Threading 4 1/2 - 9 5/8	$ 12,000,000
1980	Quanex - Bellville	OCTG Weld Mill 2 3/8 - 4 1/2	$ 10,000,000
1981	Tubular Corp. of America	OCTG Finishing Plant 2 3/8 - 9 5/8	$ 15,000,000
1981	Rheinke Manufacturing	Weld Mill 4 1/2 - 8 5/8	$ 5,000,000
1981	Hunt Energy	Round Continuous Caster and Seamless High Reduction Mill 4 1/2 - 9 5/8	$ 80,000,000
1982	Armco (Cancelled)	Bloom Caster and Seamless Restrained Mandrel Mill 2 3/8 - 13 3/8	$660,000,000
1982	Tubular Corp. of America	OCTG Finishing Plant 2 3/8 - 13 3/8	$ 38,000,000
1983	CF&I (Caster Completed; Mill Suspended)	Round Caster and Seamless Cross-rolled Piercing & Elongating Mill 2 3/8 - 4 1/2	$160,000,000
1983	U.S.S. - Fairfield, Ala.	Bloom Caster and Seamless Restrained Mandred Mill Plant 3 1/2 - 9 5/8	$690,000,000 (Tube Plant Only)
1983	GENSCO - Houston	OCTG Finishing Plant 4 1/2 - 13 3/8	$ 10,000,000
1983	York - Hanover (tentative)	Round Caster and Seamless Cross-Rolled Piercing & Elongating Mill 1.9 - 5.5	$400,000,000

APPENDIX F

CF&I ENGINEERING EXPENDITURES FOR OCTG PRODUCT DEVELOPMENT
(Thousands of Dollars)

(1979-1983)

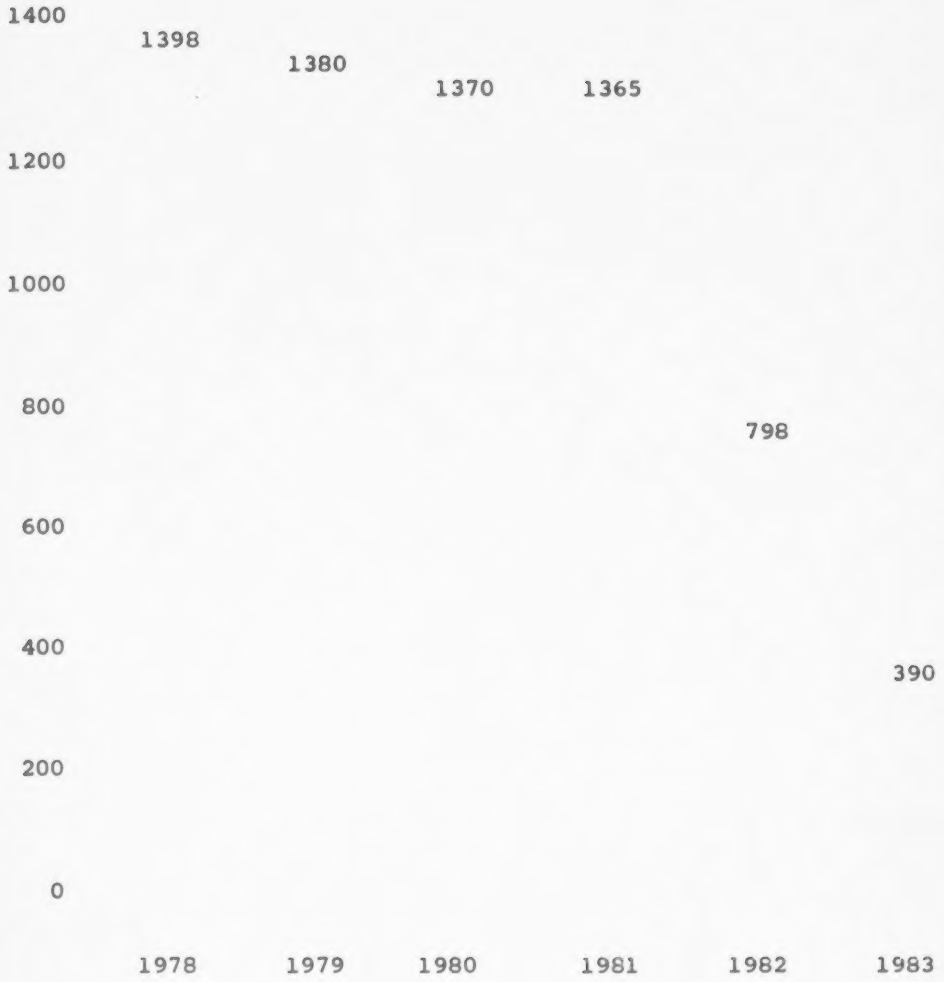


Year	$ Thousands
1979	8,500
1980	1,500
1981	4,100
1982	650
1983	1,050

APPENDIX G

TOTAL NUMBER OF EMPLOYEES ENGAGED IN CF&I PRODUCTION AND SALE OF OCTG

(1978-1983)



APPENDIX H

TEMPORARY CF&I PLANT SHUTDOWNS

Dates of Shutdown	Duration	Number of Employees Affected
07/10/82 - 10/18/82	100 days	1277*
10/29/82 - 11/14/82	16 days	1277
12/22/82 - 01/10/83	19 days	1460
01/30/83 - 02/14/83	15 days	1460
02/20/83 - 03/20/83	28 days	1460
04/09/83 - 06/12/83	64 days	1460**
06/25/83 - 07/14/83	9 days	1460
07/22/83 - 08/20/83	29 days	1460
	280 days	

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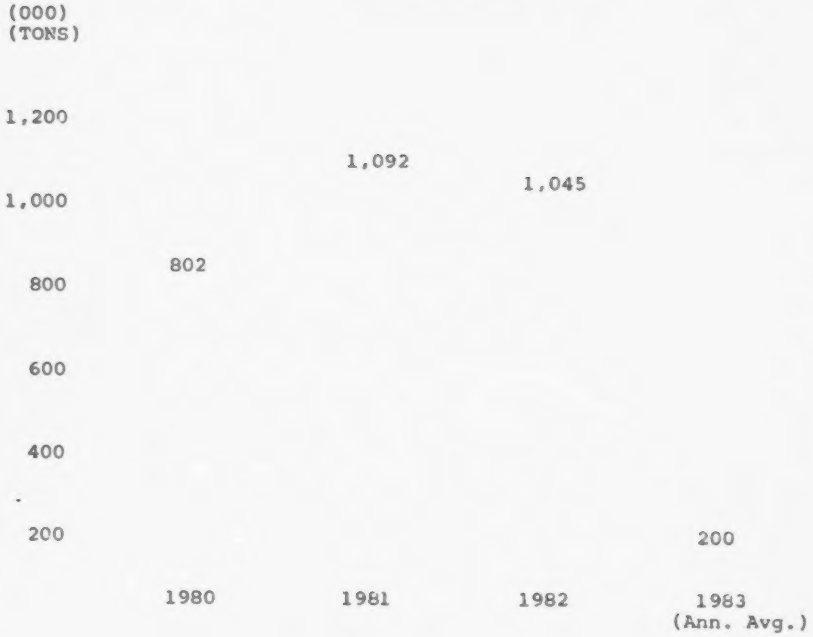
*100 salaried jobs eliminated on June 30, 1982 have never been restored.

**95 salaried jobs eliminated on April 30, 1983 have never been restored. 200 additional salaried jobs eliminated on February 29, 1984 have never been restored.

APPENDIX I

TOTAL JAPANESE OCTG IMPORTS

(1980-1983)



TOTAL JAPANESE OCTG PRODUCTION
(Tons)

Year	
1978	362,000
1979	403,000
1980	803,000
1981	1,093,000
1982	1,046,000
1983 (Ann. Avg.)	200,000

Source: Japanese Ministry of Trade

APPENDIX J

OFFERS TO SELL OCTG IMPORTS AT HALF PRICE OR LESS

CF&I STEEL CORPORATION
A SUBSIDIARY OF CRANE CO.

TO: E. L. Overtree FROM: J. E. Dionisio DATE 11-3-83

Re: Foreign Tubular Pricing Policies

Stanley Mead, Bovaird Supply Co., Tulsa, OK 918-587-7271

In conversation with Mr. Mead he indicated that Japanese and Western European mills were still well below prices being quoted by domestic producers. Prices as of this date are up 10% to 15% from those of 60 days ago. No announcement has been made concerning first quarter, 1984 pricing.

John Causey, Cinco Pipe & Supply Co., Houston, TX 713-658-0700

Mr. Causey stated that current Japanese pricing for carbon tubular goods is 40% below old (10-12-81) mill list price and high strength material is being quoted 52% - 60% below old mill prices. Some Western European producers are below these prices. No first quarter, 1984 pricing is yet available but should become available during November. Due to the large China order the Japanese may not be able to import significant tonnage into the U.S. during January, 1984.

Steve Filleman, Central Pipe & Supply Co., Houston, TX 713-440-6681

Dalmine (Italy) presently shipping in ERW plain end tubulars at $428/NT. Other small Italian producers are importing material for approximately $400/NT. The Greek producers are also importing for approximately $400/NT to Cactus Pipe in Houston. Large trading companies such as Phillip Bros. have pipe on consignment basis from several third world countries and have said they will not purchase material for 4th and 1st Quarter 1984 at more than $400/NT. L. B. Foster will not purchase at prices in excess of $400/NT. New Japanese pricing for 1st Quarter is expected by November 15 and is anticipated to be in the 35% - 45% range off old mill base. No plain end material is being quoted in excess of what allocation amounts based on customer histories. Mannesman imported 800,000 ft. (9600 tons) of 8 5/8" 24# K-55 ST&C R-3 Seamless Casing during the last two weeks at a price of $696/clf less 6% and 2% ($534/NT). Vinson Supply reportedly purchased 300,000 ft. of this material.

J E Dionisio

JED/cw
cc: G. E. Marshall
J. D. Foster

LEGAL DEPARTMENT
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REFER TO
FILE

JED Ed Overtree

Copy for all mill admin's. DFD

RECEIVED
MAY 5 1983
TUBULAR DEPARTMENT

SUP SUPPLY HOU

ALEX STL SLS

ATTN LON DILLMAN

05/04/83 TLX 8305-09

RE: HOESCH OCTG PRICES FOR NEWLY PRODUCED INVENTORY

NEW MATERIAL ARRIVING LATE JUNE/EARLY JULY WILL BE PRICED AS FOLLOWS:

TUBING--- 45 AND 2 0/0 OFF LONE STAR 10/11/81 LIST
CASING--- 40 AND 2 0/0 OFF LONE STAR 10/11/81 LIST

OUR CURRENT INVENTORY PRICING WILL REMAIN THE SAME FOR THE TIME BEING.

RGDS
DON ALEXANDER
ALEXANDER STEEL SALES
DRA

ALEX STL SLS
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GENERAL MANAGER
TUBULAR SALES

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LEGAL DEPARTMENT
MAY 12 1983
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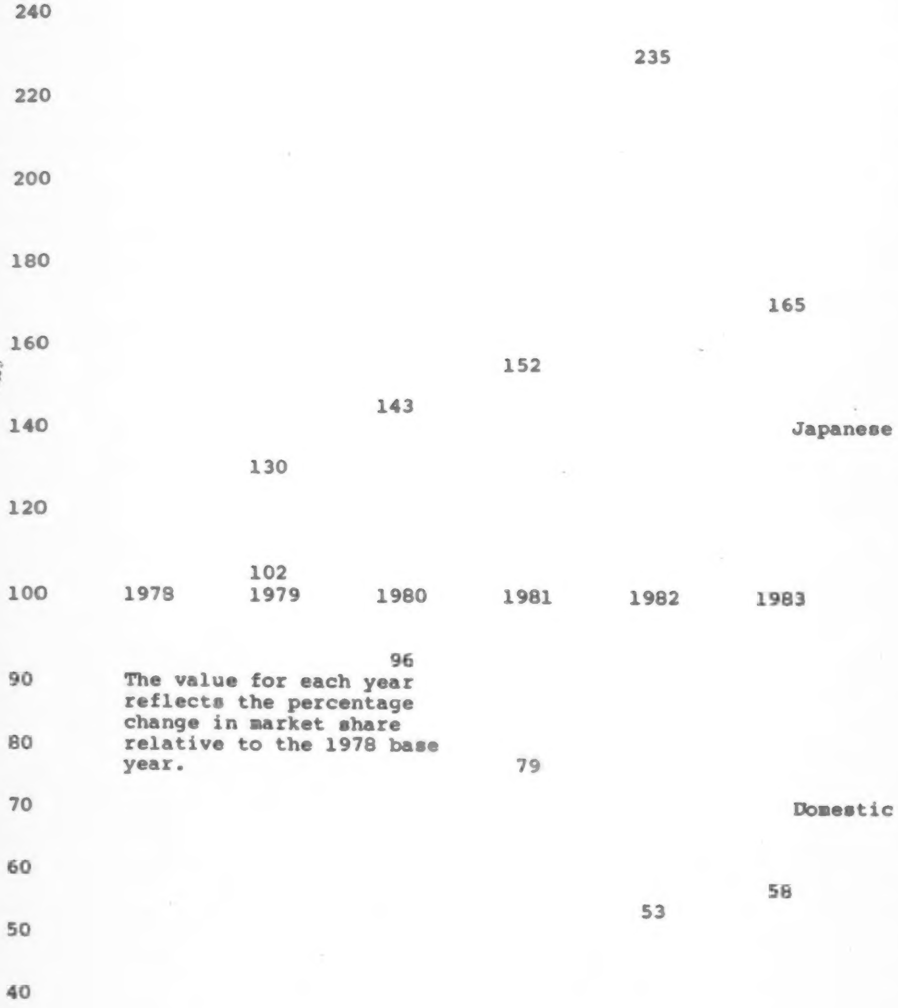
APPENDIX K

INDEX COMPARISON OF MARKET SHARES OF JAPANESE AND DOMESTIC OCTG

(1978-1983)



The value for each year reflects the percentage change in market share relative to the 1978 base year.

INDEX COMPARISON OF MARKET SHARES OF JAPANESE AND DOMESTIC OCTG

(1978-1983)

Year	Domestic	Japanese
1978	100	100
1979	102	130
1980	96	143
1981	79	152
1982	53	235
1983	58	165

APPENDIX L

Imports of OCTG
By Country of Origin
Net Tons

Country	1980*	1981*	1982**	7 MOS. 1983**
Japan	802,540	1,092,817	1,045,995	112,901
Italy	58,290	236,835	278,731	64,463
West Germany	42,880	474,578	264,762	10,178
Korean Republic	1,861	51,675	105,734	16,534
Canada	49,681	157,915	75,195	8,971
United Kingdom	403	22,042	72,354	2,333
Greece	30,581	52,105	67,070	8,318
Brazil		40,585	53,734	4,078
Spain	13,724	89,365	51,637	6,296
Austria		4,772	37,904	2,488
Belgium-Luxembourg	2,646	62,346	35,183	3,873
France	4	21,572	30,191	9,401
Argentina	5,746	15,776	15,100	6,217
Romania	12,957	41,144	14,396	135
Sweden		511	9,604	6,398
Czechoslovakia	7,375	13,896	8,191	
Venezuela	4,330	1,829	4,990	22
China-Taiwan		2	3,383	
Yugoslavia		6,372	1,870	
Republic of South Africa			1,322	
Mexico	2,225	910	855	3,009
Israel			684	3
Switzerland			449	6
Singapore		544	219	
Arab Emirates			121	
Hungary			57	
Netherlands	23	807	54	
Poland			36	
Belize			21	
Australia			12	
Jamaica			5	
Denmark			3	
USSR		154		
Hong Kong	456			
Africa	409			
Nigeria	3			
Malaysia				324
Taiwan				252
Total	1,036,134	2,388,552	2,179,862	266,200

* Casing Only (Tubing and Drill Pipe not separately reported until 1982)

** Casing, Tubing, Drill Pipe

Source: U.S. Department of Commerce
American Iron & Steel Institute

APPENDIX M

IMPORTANCE OF INCREASING IMPORTS RELATIVE TO DECLINE IN DEMAND AS AN EXPLANATION FOR DECLINE IN OCTG SALES IN THE U.S. IN 1982

Actual 1981 and 1982 data:	1981	1982
- Total OCTG sales in the U.S. (tons)	6,502	3,786
- Sales of U.S. OCTG	4,241	1,759
- Sales of imports	2,389	2,180
- Ratio of imported sales to total sales	36.7%	57.6%
- Ratio of U.S. sales to total sales	63.3%	42.4%
Estimated data for 1982, holding import share of total U.S. sales constant at 1981 level and using actual 1982 total U.S. sales data:		
- Sales of imports, if held at 1981 share	1,389	
- U.S. share if held at 1981 share	2,397	
Net change from 1981 to 1982:		
- Total actual decline in sales of U.S. OCTG	2,482	
- Net decline due to increased share of sales of imported OCTG	791 (2,180 minus 1,389)	
- Net decline due to declining demand	1,691	
- Share of declining total U.S. Sales due to increased imports	31%	
- Share of declining total U.S. sales due to declining demand	69%	

2464A/25A

[By permission of the chairman the following is included in the hearing record:]

CANADIAN EMBASSY,
AMBASSADE DU CANADA,
Washington, DC, April 25, 1984.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade, U.S. House of Representatives, Longworth Building, Washington, DC.

DEAR MR. GIBBONS. I am writing to provide you with Canadian views on H.R. 5081, The Fair Trade in Steel Act of 1984, on which your Trade Subcommittee will begin a series of hearings April 26. If this bill were enacted, its restrictions on imports of steel and iron ore would, in our view, severely impinge on Canadian exports of these commodities to the United States. It is the Canadian view that such restrictions on our exports are not warranted.

As you know, the U.S. and Canadian steel industries, as a result of their proximity to each other and a number of structural similarities, have often been collectively recognized as an integrated North American steel industry. For example, Canadian and U.S. steel producers purchase a considerable amount of steel products from each other. U.S. steel mills have interests in Canadian iron mines; and Canadian mills obtain most of their coal and substantial amounts of iron ore from U.S. sources. Canadian steel producers also purchase equipment, refractory materials and alloying elements from the United States. For certain major Canadian steel companies, these purchases in the United States have been estimated at 1.25 dollar for each dollar of finished steel exported to the United States.

Canada and the United States are also each other's most important export markets. Imports from Canada in 1982 accounted for about 2.6 percent of U.S. apparent consumption while imports from the United States accounted for some 5 percent of Canadian consumption. There is considerable trade in semi-finished steel products between U.S. and Canadian steel mills: in recent years shipments to the United States have assisted U.S. mills in maintaining the fact that U.S. steel demand was too low to allow them to economically supply their finishing operations. There is also a significant amount of Canadian steel which is shipped to the United States for conversion and re-export to Canada, thereby providing jobs for U.S. workers.

The relationship between the two steel industries is further strengthened by a number of factors: there are numerous technical exchanges between the two industries; there are joint ventures for the development and production of iron ore and coal; cross-border investments have led to a rationalization of production facilities which has in turn resulted in considerable amount of intra-corporate trade in finished and semi-finished steel products; finally, unionized steel workers in both countries belong predominantly to the same unions.

Most of the U.S. customers of the Canadian steel industry are longstanding and are regionally concentrated along the Canadian border. Their decision to source in Canada is not solely determined by price but also by considerations of reliability of delivery, quality of service and proximity.

For all the above reasons, it is the Canadian Government's view that across the board trade restrictions which by their very nature would apply to Canada are not justified. Steel from Canada is fairly traded in the United States. With the exception of one small investigation some years ago that ended in a suspension agreement, Canadian steel shipments to the United States have not been subject to anti-dumping or countervailing duty findings. Canada, like the United States, has been the target of unfair trade practices by countries intent on increasing employment and generating foreign exchange at the expense of the North American steel industry.

Furthermore if H.R. 5081 were passed into law it would, in our judgment, impair rights and benefits accruing to Canada (and other countries) under the General Agreement on Tariffs and Trade. You will recall that U.S. action on specialty steel last year prompted the affected exporting countries to take action against U.S. exports of stainless and alloy tool steel as well as other commodities. The stakes would be of course much higher in this instance.

I trust these comments will be helpful in your consideration of the issue. Please do not hesitate to call me if I can be of further assistance.

Yours sincerely,

ALLAN GOTLIEB, *Ambassador.*

FORBES STEEL CORP.,
Canonsburg, PA, March 16, 1984.

Mr. JOHN J. SALMON,
Chief Counsel, Ways and Means Committee,
Longworth House Office Building, Washington, DC.

DEAR MR. SALMON: It has come to my attention that you will be holding public hearings on the problems of the U.S. steel industry.

We are a fabricator of steel wire rods with plants in Canonsburg, Pennsylvania and Wilmington, Delaware, manufacturing a variety of wire products for the construction and agricultural industries. We are concerned about the effect that the proposed quota system will have on our segment of the steel industry. As you know, the flow of wire rods from overseas, and particularly from developing countries, has been severely curtailed because of the number of successful dumping suits filed by domestic producers. As a consequence of this action, which we have supported in the past, we have have been confronted with an onslought of fabricated wire products. When these countries are prevented from shipping wire rods into this country, they immediately revert to shipping in the finished products. Our Company has been particularly impacted by foreign barbed wire and galvanized wire which is being sent in here at prices far below the domestic market price or cost.

While we strongly support any efforts to prevent unfair dumping of steel into the United States, we suggest that any quotas be broadened in their scope to incorporate steel wire products in addition to what is normally considered steel mill products.

When the trigger price mechanism was in effect, and incidentally we were one of the few steel fabricators who wrote in support of that concept, there was a serious loophole which allowed fabricated wire products to continue to be shipped while restricting wire rods. As you can see from the enclosed article which appeared in American Metal Markets, some third world countries have already made public their intention of doing this again.

It is particularly critical at this time because the closing of numerous domestic wire rod mills has created a shortage of domestic wire rod production which is considerably in excess of the proposed fifteen percent (15 percent) quota.

We urge your committee to include a quota for imported wire products as well as wire rods. We would be pleased to furnish any additional information or testimony your committee might want in this regard.

Very truly yours,

LESTER S. NOLAN,
Chairman of the Board.

POLAND'S WIRE NAIL GROUP IN GLOBAL BUYER HUNT

WARSAW (FNS).—Before the social and political troubles in Poland began in 1980–1981, the United States was Poland's fifth-largest Western client.

Steel plate was the sixth most important export item to the U.S. as Poland used to ship also about 40,000 tons annually of wire nails to the U.S., and Universal, the Polish foreign trade organization that markets them worldwide, is now looking for other outlets.

Boguslaw Chrostowski, manager of Universal's Hardware division, said a drive for new sales to Singapore, Malaysia and other countries had actually started already when the U.S. imposed the trigger price mechanism in 1979 and a later fruitless investigation into the dumping of Polish wire nails. Since last fall Universal has been looking more actively at the Far East and at various countries in Western Europe, however.

"Before the trigger price mechanism we wanted to set up our own sales organization in the U.S.," recalled Chrostowski, who worked between 1971 and 1976 handling Universal's shipments to the U.S.—the target of half of its total exports for more than 10 years—at the New Jersey headquarters of its exclusive U.S. agent, Borneo-Sumatra Trading Co.

"It's been easier without the trigger price mechanism hanging over our heads, but with most-favored-nation gone now, we have to absorb the higher duties on nails," he said.

The lifting of MFN status has boosted U.S. duties on normal nails from 0.5 to 3.5 percent, making it much harder for Poland to compete with South Korea and Japan. "We don't have enough money to modernize our machinery either," he said, predicting that Universal's nail exports to the U.S. will continue to stay below 20,000 tons a year.

It will continue to market in the U.S. between 2,000 and 5,000 tons annually of barbed wire, which remains duty-free, in spite of tough competition from Belgium. But it will be "almost completely out of the market" for regular steel wire, he said. Poland used to deliver to the U.S. more than 5,000 tons a year of certain types of wire, where duties have increased from 8 percent to 35 to 40 percent.

U.S. duties on special nails have increased from about 20 to 30 percent, but Chrostowski said Universal will continue to try to improve the range of its products to help beat higher freight rates, as well as the higher duties, with greater added value. Last year it began to ship between 50 and 80 tons of medium-carbon and heat-treated steel nails to the U.S. and it is following up this spring with hot-dip galvanized nails similar to those being offered from Yugoslavia and South Korea.

The lack of MFN status also has affected Poland's ability to offer a much wider range of products in the U.S.

"We used to sell a few million dollars of ball bearings in the U.S.," said an official of Impexmetal, which handles Poland's trade is this category and in nonferrous metals, "but with duties up from 11 to 66 percent I'm afraid it is past history," he said.

The U.S. used to import only about 15 percent of Poland's $25 million worth of ball bearings it is selling annually into Western markets.—Eugene DiMaria.

Statement of the Hack & Band Saw Manufacturers Association of America

This statement is submitted by the Hack and Band Saw Manufacturers Association of America, a 55-year-old not-for-profit association of manufacturing companies located in the United States which produce blades for hack saws and band saws used mainly in manufacturing facilities for production cutting of metal. We thank you for the opportunity to present our views.

We are not unconcerned with the financial health and stability of either the American steel industry or American labor. As a matter of fact, the members of our association firmly believe that our position with reference to H.R. 5081—Fair Trade in Steel Act will help promote the health of both industry and labor in America.

Our concern is a very narrow one, involving two specific classes of carbon steel essential to the continued production here in the United States of metal cutting band saws, namely raw material imported under TSUSA 608-2150 (formerly 608-2140) and TSUSA 609-2100.

The 12 members of our association during 1983 used 6,469,661 pounds of these materials. 2,321,622 pounds (or 36 percent) were acquired from domestic sources, and 4,142,039 pounds (or 64 percent) were purchased from import sources. There are three manufacturers of metal cutting band saws who are not members of our association, who also make use of these materials, but we do not have access to their purchase figures.

According to our information, domestic manufacturing capacity with respect to carbon band saw steel is insufficient to satisfy total domestic demand. Our information is that only one U.S. manufacturer produces a full line of the carbon band saw steel that we require. The same is true, in our judgment, with respect to the only full line producer of band saw steel strip in the United States. There may be one or two other domestic manufacturers that have produced small amounts of some lines of the raw material, but without the capability of helping the full line producer to meet our requirements.

We would like to describe an experience of one of our members who attempted to obtain its steel from the domestic full line producer in 1983. Eighty percent of it was rejected by the producer at its own plant, before shipment. Of the 20 percent which was shipped, the member had to reject 38 percent. In other words, of the total orders, it received only 20 percent and could use only 12.4 percent.

Since there appears to be less than the required capability in the United States to supply the raw material that we use in producing our products, it is hard to see how the American steel industry could have been injured by the imports of products falling into TSUSA 608-2150 (formerly 608-2140) and TSUSA 609-2100 categories.

We call your attention to the fact that these same raw materials were excluded from the import relief measures ordered by the President of the United States as a result of last year's investigation No. TA-201-48, conducted by the Commission and from the International Trade Commission's recommended remedy in response to the petition filed by Bethlehem Steel Corporation and the United Steelworkers of America earlier this year.

We manufacturers of band saw blades require these specialized raw materials to keep our employees working. But there are many, many thousands of manufacturers who require metal cutting band saw blades in order to keep their millions of employees working.

One might be tempted to think that 6½ million pounds of specialized raw material is of little importance to the economic health of American industry. We ask you to recall the old story of the kingdom that was lost because of the lack of a nail. Do you remember? For the lack of the nail, a shoe was lost; then the rider, etc., until the kingdom was lost.

We say, for the lack of a continued reliable source of this specialized raw material, not only we, but our employees; not only our employees, and our customers' customers; and their employees; literally, millions—will be adversely affected.

For all these reasons, we sincerely urge the Subcommittee on Trade and the Committee on Ways and Means to exclude from HR 5081 the specific product categories mentioned in this statement. Any import relief measures imposed with respect to these raw materials will have a most serious impact on our production capabilities which, in turn, will seriously affect other U.S. industries, among them manufacturers of defense-related products.

The inclusion of products imported under TSUSA 608-2150 (formerly 608-2140) and TSUSA 609-2100 in HR 5081 is, therefore, neither in the interest of labor, the United States steel industry, not the overall national interest.

Thank you.

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE &
AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—UAW,
Washington, DC, May 1, 1984.

Hon. SAM GIBBONS,
Chairman, Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Longworth House Office Building, Washington, DC.

DEAR MR. CHAIRMAN: As you consider H.R. 5081, the proposed Fair Trade in Steel Act, we want you to know that the United Auto Workers strongly supports this critically-important legislation. We respectfully request that this letter be made a part of the record of hearings on H.R. 5081.

The need for enactment of H.R. 5081 has been well documented by witnesses before your Subcommittee. We believe the arguments of proponents of H.R. 5081 as the means to achieve a measure of trade stability in the steel industry are convincing. Approval of H.R. 5081 and the provisions it contains to redress the crisis situation facing the domestic industry and its workers would be in our national interest. We believe this because the steel industry, like the auto industry, is basic to the health of our economy.

The quotas proposed in H.R. 5081 are essential to give the domestic steel industry "breathing room" needed to undertake a massive restructuring program to be competitive in this market and maintain a fair share of the market. The bill, designed to help provide five years of stability, would assign a 15 percent market share (generous by world standards) to steel importers and a 25 percent share to iron ore importers. Significantly, in our view, H.R. 5081 would mandate that the domestic steel industry commit itself to modernization plans as a quid pro quo for the assistance provided by the quotas. This latter provision, requiring as it does accountability on the part of the industry, is a key ingredient of the bill which has not been found in quota proposals in the past.

H.R. 5081 places conditions on the relief it would provide to the industry. It would protect the public interest as its provisions help to bring about trade stability in the steel industry and a measure of some employment security for the workers in that industry. H.R. 5081 is a good and a balanced bill; it is a bill which is worthy of your enthusiastic support.

The UAW urges you and your colleagues on the Trade Subcommittee and the full Ways and Means Committee to support H.R. 5081. Your consideration of our position on this important measure will be appreciated.

Thank you.

Sincerely,

DICK WARDEN,
Legislative Director.

KAISER STEEL CORP.,
Fontana, CA, April 24, 1984.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade, House Ways and Means Committee, Longworth House Office Building, Washington, DC.

DEAR CONGRESSMAN GIBBONS: Kaiser Steel Corporation opposes H.R. 5081. Once the tenth largest steelmaker in the country, Kaiser Steel closed its Fontana Works in 1983. Steelmaking ended early in the year and the rolling and finishing mills were idled last November. Earlier this month Kaiser Steel signed a letter of intent with Pacific Steel Corporation covering the possible sale of the steelmaking and finishing facilities at Fontana.

Kaiser Steel continues to produce fabricated products at facilities in Northern and Southern California. These facilities provide the most versatile and complete heavy fabrication, assembly and erection capability on the West Coast, as well as a wide range of tubular steel products. Included in the latter category is large diameter pipe, produced at our Napa, California, fabricating facility, which today represents one of the few remaining domestic sources of pipe for oil, gas, and potentially, coal slurry transmission. These facilities consume various flat-rolled steel mill products as raw materials for the manufactured and fabricated end products. In total, Kaiser Steel will be the largest consumer of steel products on the West Coast. Because of the varied and complex nature of many of these end products, the steel from which some of the flat-rolled feedstock is made must be poured to special specifications. To fill its requirements for these specifications, Kaiser may purchase semi-finished slabs of the required specification and have the slabs rolled into plate at a domestic rolling mill. Thus, although Kaiser previously relied on the Fontana Works for feedstock for its fabricating facilities, such raw material will now be purchased on the open market, and such purchases may include slabs.

With the closure of Fontana, the only domestic sources of supply in the West for most of these products are U.S. Steel at Geneva, Utah, and Oregon Steel Mills Division of Gilmore Steel in Portland, Oregon. Each of these producers is an important supplier, but because of certain product and geographic limitations, neither can provide entirely the requirements of Kaiser's fabricating facilities. Accordingly, Kaiser will depend to a significant extent on steel imports to supply its raw material needs.

Kaiser's primary objection to the Quota Bill is that it fails to make critical distinctions among certain regional and product characteristics. It is a sweeping, all encompassing and simplistic approach to a highly complex industry. The Western steel market has always been materially different from the rest of the national market, and it has undergone further substantial change since 1979—the base year of the Bill's base period for quota calculation. The market now relies even more heavily upon imports of all steel mill products than it did during the base period. Increased pressure from imports contributed to Kaiser's decision to close its Fontana mill. Now that the mill is closed, the West Coast has permanently lost the capability of producing raw steel from basic iron ore. The facilities in the West to melt scrap are insufficient to supply the needs for raw steel for the Western market. Any comprehensive scheme to deal with steel trade should recognize and accommodate the fact that domestic steelmakers cannot realistically supply the Western market's requirements.

The Bill does not even acknowledge that substantial reduction in steelmaking capacity has occurred on a national basis since the base period. Since 1979, the base year for the quota, America has lost 20 million tons of steelmaking capacity. The first useful products from raw steel are the semi-finished shapes of slabs, blooms and billets. Steel mills—and only steel mills—use these semi-finished products in rolling and finishing the mill products for which there is a general market. Thus, America has lost just slightly less than 20 million tons (allowing for yield loss) of semi-finished slabs, blooms and billets. But H.R. 5081 would limit imports of semi-finished products to 400,000 tons nationally. If the Fontana finishing mills are reopened under new ownership, its requirements for slabs could exceed in one quarter the annual slab quota for the entire country. Furthermore, with regard to the plate products which are crucial to our fabricating operations, the two remaining domestic mills in the West cannot provide the broad range of specifications required by ourselves and the market. From the standpoint of volume, these two facilities can provide barely 40 percent of the market.

Section 6 of the Bill is intended to handle "short supply" problems. But it would create a monstrous "soup kitchen" line of steel consumers at the steps of the Commerce Department seeking vouchers for their raw material needs. The national steel market is incredibly complex, with myriad differentiations in product descriptions and grades, geography, processing options, and regional market characteristics. The Bill brushes all of these complexes aside and instructs the Secretary of Commerce to deal with them—in consultation solely with domestic suppliers. This provision puts the federal bureaucracy in the steel procurement decisionmaking of thousands of steel consumers. It would put America on steel rationing in a world of steel overcapacity!

Unfair steel trade is widely acknowledged and contributed substantially to the capacity reductions since 1979 which have occurred in this country, including the closure of the Kaiser mill at Fontana, California. But this Bill cannot put that capacity back. It should not be assumed that the U.S. Steel market is the same now as it was in the base period. Kaiser supports strict enforcement of the laws designed to correct injurious and unfair trade. Indeed, we are deeply concerned at the moment regarding the price levels at which imported large diameter pipe is entering the U.S. Those laws contemplate the examination of market conditions in a case by case investigation. This Bill would superimpose assumptions of simplicity and uniformity on a real world of complexity and differentiation.

Therefore, Kaiser Steel opposes H.R. 5081 since it fails to address the unique requirements of the Western steel market—from the viewpoints of both suppliers and consumers. We request that this letter of opposition be included in the record of your hearings on the Bill.

Very truly yours,

KENNETH L. GIBSON,
Vice President, Corporate Development.

STATEMENT OF HON. JOE KOLTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Chairman and members of the Subcommittee on Trade, I appreciate the opportunity to present a statement in support of H.R. 5081, the Fair Trade in Steel Act of 1984. I am sure that by now the subcommittee has heard from many witnesses who have presented a wide array of arguments for and against this legislation. You have probably been bombarded with statistics and listened to more arguments than you care to remember. Instead of continuing that trend, I will relate some of the findings of a member of my staff who recently returned from Brussels, Belgium, and meetings with European Economic Community (EEC) steel officials and several European steel executives. I am hopeful that I will be able to provide the subcommittee with some insight into how the Europeans are handling their steel industry crisis.

Over the last several years, domestic steelmakers have argued that government subsidized steel products have been unfairly traded in the United States—unfairly because those products received direct and indirect government assistance. Many people in this country were skeptical and thought that the charge of government subsidies was fabricated by an inefficient domestic steel industry which had been staggered by huge operating losses, crippled by outdated equipment, and plagued by a declining demand for steel products.

During his stay in Belgium, my staffer learned that the member nations of the EEC do indeed subsidize their steel industries. No effort was made to hide this fact.

Officials charged with executing the Davignon Plan for retructuring the European steel industry in Brussels indicated that member nations could request the right to grant state aid to steelmakers from five separate categories. State aid proposals were subject to the approval of the commission of the European Community.

Categories of government aid are as follows: 1. Investment aid; 2. Aid for total or partial closures; 3. Aid for continued operations; 4. Emergency aid; and 5. Aid for research and development.

I believe the state aid categories are self-explanatory and I have attached some examples in an appendix to this statement. In fairness to the Europeans, I want to make it understood that the EEC does attach strings to the approval of state aid. For example, one condition for state aid is reduction of excess capacity.

Despite a well-developed set of guidelines for granting state assistance, the undeniable fact remains that European steel producers have received government subsidies for the past several years and this practice will continue until the end of next year, at least.

European steel officials justify state subsidies because they contend that aid is absolutely necessary to guarantee competition in the future. If weaker producers go out of business, the few that remain would constitute a monopoly. Government assistance, they reason, will keep more producers alive and foster greater competition once all producers are subsidized back to health.

This is a very expensive and complicated method of protecting competition. It is also a clever justification for state subsidies. What the Europeans are saying to their inefficient producers is: We will subsidize you and give you the chance to try and become competitive. This is not fair to those European producers who are efficient and it is certainly not fair to steelmakers in the United States who have no subsidy program.

While it remains to be seen whether or not this approach will be successful, I urge the subcommittee to take a hard look at what has occurred over the past 3 or 4 years and what is expected to happen before the end of 1985.

By the end of next year, EEC Steelmakers will have reduced crude steel capacity by at least 26.7 million metric tons. More optimistic projections reveal that as much as 30 to 35 million metric tons could be trimmed from production. This represents a sizeable reduction when one considers that the total capacity of the "European nine" stands at over 100 million metric tons.

Hand-in-hand with the reduction in old capacity has been modernization. Most impressive to me has been the increase in the use of continuous-casters. In 1981, continuously-cast steel output by EEC members was 45.1 percent of crude steel output. During the same year, only 20.3 percent of U.S. crude steel output was continuously-cast.

By 1983, EEC continuously cast steel leaped to 60.4 percent while U.S. output moved to only 31.2 percent. Clearly, the European producers, in partnership with their respective national governments, have used this time to become more competitive and more modern.

In addition to subsidies, the EEC producers have had a guarantee share of our market under the agreement we entered with them in 1982. Our producers agreed to withdraw trade complaints if their producers agreed to limit exports into our market. The agreement gives them the best of both worlds. It provides EEC steelmakers with the opportunity to modernize while giving them a market to dispose of their products. A look at the most recent figures shows that our steelmakers are certainly not benefiting from this agreement. Since January of this year, steel imports from the EEC total 2,668,445 tons. That represents a 49.8-percent increase over the first 6 months of 1983.

In urging passage of the Fair Trade in Steel Act, the domestic steel industry is not coming before the Congress begging for a subsidy to prop up the inefficient, but rather, it seeks the opportunity to become more modern and competitive.

In my opinion, the unique provision within H.R. 5081 is the linkage of import relief to investment and modernization in the steel sector. Domestic producers would be compelled to invest in new equipment or face the loss of import relief. There would be no qurantee that quantitative restrictions would be kept in place for the full 5-year period unless a real effort was made to modernize and become more competitve. The burden of proof would fall on the industry.

I know that this is not the method we, in the United States, like to use when an industry is in trouble. We prefer to let the market decide who will survive and who will not. But I ask you, how can this industry, or any industry, survive when it has to compete against foreign governments? If we permit it to happen, the inefficient, with the help of their home governments, could drive our steel producers out of business and put our workers out of a job. In fact, this has already occurred in some product lines. Certain steel products are no longer produced here because our producers can not compete against subsidized steel.

We can argue all we want about free trade, but free trade only works when everyone plays by the rules. It has become more and more apparent that our trade partners are not playing by the rules. Whether we like it or not, we must be prepared to respond when our competition changes in the middle of the game.

The Fair Trade in Steel Act represents the best method of responding to the problem of subsidized steel. It does not seek transfer payments from the Treasury, and it does not slam the door on imported steel. It provides the domestic industry with the opportunity to compete. The bill also grants relief to all segments of the domestic steel industry. As the subcommittee knows, not all product lines were covered by the U.S. International Trade Commission ruling that is now in the hands of the President. Major product lines such as pipe and tube were not granted relief against a flood of imports.

The real issue at hand is fair trade in steel—all types of steel. I thank the subcommittee for its time.

APPENDIX

FIFTH REPORT ON THE APPLICATION OF THE RULES FOR AIDS TO THE STEEL INDUSTRY

1. Introduction

1.1. Article 10 of Decision 2320/81/ECSC (the aids code) provides that the Commission is to prepare regular reports on implementation of the code for the Council and for the information of the European Parliament. These reports are also transmitted to the Consultative Committee.

1.2. The fourth report, for the period up to 31 January 1983, was made in April 1983. It described in detail the criteria and procedures established by the aids code and the way in which the Commission has interpreted and applied them. That description remains a valid statement of the Commission's policy during 1983. The present report which covers the period up to 31 December 1983 therefore deals with developments peculiar to 1983.

2. The Timetable

2.1. As the year progressed the constraints resulting from the timetable established by the code became increasingly severe. This was already evident to a minor degree in late 1982 when a number of Member States had difficulty in meeting the notification deadline on 30th September 1982 and one merely submitted details of aid applications made by undertakings, which the Commission agreed to treat as a notification of aid plans. Early in 1983 it became clear that other Member States had been obliged to notify aid plans which were not in their final form. Accordingly, in February, the Commission invited the Member States rapidly to adjust their aid notifications in order to take account of developments since the date of notification and of the views expressed by the Commission on the aid plans in question.

At the end of May the Commission again reminded the Member States that, in accordance with the aids code, it would give its final decision before 1 July 1983, and it requested that they send it immediately all the information still missing in respect of their proposals.

In the last few days before the 1 July deadline Member States informed the Commission of their final aid plans which in some cases involved increases in the amount of aid. They were, however, unable to supply their final detailed restructuring plans which were essential for the Commission's appraisal of the compatibility of the aids with the criteria established by the aids code. In these circumstances the Commission decided that it would have to make its decisions to authorise aid conditional upon sufficient further restructuring being carried out to secure the viability of undertakings by the end of 1985.

2.2. The aids code provides that aids to continued operation may only be paid for a maximum period of two years unless, after having sought the opinion of the Member States within the Council, the Commission grants a derogation from this period. Six Member States applied to the Commission for such a derogation to be granted: Belgium (for Cockerill-Sambre), the Federal Republic of Germany (for Arbed Saarstahl), France (for Sacilor and Usinor), Ireland (for Irish Steel Ltd.), Italy (for Finsider) and the United Kingdom (for the British Steel Corporation). The Commission informed the Council of these applications and the latter gave a favourable opinion at its meeting on 25 July 1983. This derogation does not affect the final date of payment of aid to continued operation, which, as laid down by the aids code, remains fixed at 31 December 1984.

3. Commission decisions of 29 June 1983(1)

3.1. On 29 June the Commission adopted nine decisions on steel aids, one for each Member State with aids subject to examination. (The exception is Denmark, which had notified no new aids since the Commission's approval of a financial reconstruction in 1981.)

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(1) OJ L228 of 19.8.1983

3.2. Most of these decisions contain conditional authorizations of the aids they concern. The two major conditions are that further net capacity reductions of at least a specified amount must be carried out and that the financial viability by the end of 1985 of the aided undertaking must be demonstrated. The minimum additional capacity reductions required by the Commission are shown in Table 1 and amount to 8.3 million tonnes . It will be seen that the total capacity reduction thus achieved over the period 1980 - 85 will be at least 26.7million tonnes of hot-rolled products and the Commission is confident that reductions in a number of Member States will be greater than those required by it, since many undertakings will find themselves obliged, in order to restore their viability to carry out further rationalization. It thus appears that the objective cited in the last Report of a 30 to 35 million tonnes reduction should be attainable. In the current difficult economic and social circumstances this would be a substantial achievement.

The decisions provide that the Member States must supply their final restructuring plans by 31 January 1984 so that the Commission can judge whether these conditions are met. Aid which is absolutely necessary to enable undertakings to survive up to that date may be paid if a capacity reduction sufficient to justify such aid is offered. After that date it will no longer be possible for a Member State to pay aid to an undertaking unless the Commission is satisfied that the undertaking can become viable by the end of 1985 and the aid is justified by the amount of the net capacity reduction offered.

The decisions also contain a number of provisions designed to ensure that aid is used only for the purpose for which it was authorized and that unwarranted distortions of competition do not result from the aid. Thus, for investment aid, payments may only be made as and when investment expenditure is incurred and quarterly reports are to be submitted in advance to the Commission showing expenditure expected to be incurred and aid to be disbursed. In this way the Commission can ensure that sums authorized as investment aid are not used to cover an undertaking's losses or for other unauthorized purposes. In order to ensure that aid to continued operation, for instance to cover an undertaking's operating losses, is not used to undercut prices, the decisions provide that the Commission may order the suspension of aid payments if it finds that the aided undertaking has breached its obligations under the ECSC Treaty particularly those concerning production quotas and pricing.

The decisions also provide for the Commission to monitor the payment of aids and the progress of restructuring and to take action to suspend aid payments if the conditions attached to the decisions are not respected or to impose additional conditions relating to the restructuring of an undertaking if it appears that the latter's return to financial viability by the end of 1985 is in doubt.

3.3. In some cases the Commission found itself unable to specify in advance the conditions that would have to be met in order to enable it to authorize the aid. It therefore found these aids to be incompatible with the orderly functioning of the common market unless an adequate justification for them could be offered by the Member State concerned by 31 January 1984. The other conditions of these decisions are the same as those described above. These negative decisions concern the following undertakings: Usines Gustave Boel, Fabrique de Fer de Charleroi, Sidmar and ALZ (Belgium), Metallourgiki Halyps and Sidenor (Greece), Irish Steel Limited (Ireland) and Sheerness Steel (United Kingdom, subsequently withdrawn).

3.4. Some of these decisions have been challenged in the Court of Justice. The German Government has brought an action against the decisions concerning Belgium, France, Italy and the United Kingdom.

Five local authorities in Luxembourg

are challenging the Luxembourg decision and the Netherlands undertaking, Hoogovens, is contesting the Italian and the Netherlands decisions.

4. Infringements of procedural requirements

4.1. In November and December 1981 the Commission initiated infringement procedures under Article 88 ECSC against France and Italy and under Article 169 EEC against Belgium. These procedures were initiated when the commission learned that the Member States in question had granted aid either prior to or without notifying it to the Commission or after the Commission had initiated an examination procedure, whose legal effect is to suspend the payment of aid until the Commission has given its final decision.

4.2. Subsequently further infringements of the same character came to the Commission's notice and in April 1983 the Commission therefore initiated additional infringement procedures against Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the United Kingdom.

5. Release of aid tranches

5.1. In the first half of the year the Commission continued to authorise the payment of tranches of aid in return for tranches of restructuring as described in the last report. In the second half of the year it has released for payment aids necessary for the continued operation of undertakings up to 31 January 1984 again in return for specified capacity reductions.

5.2. Tables 2 to 5 summarize the Commission's positions on aids to the steel industry up to the end of 1983. Table 2 shows the amounts of aid whose payment was authorized up to 29.6.1983 (and thus includes certain aids authorized unconditionally on that date). Table 3 gives the amounts of aid conditionally authorized in the decisions adopted by the Commission on 29.6.1983 and Table 4 gives the amounts of these aids which have since been released for payment. Finally, Table 5 shows the aids found by the Commission to be incompatible with the common market on 29.6.1983.

TABLE 1

Capacity reductions in the steel industry 1980 - 1985

Member State	Hot-rolled products capacity in 1980		Net reductions made since 1980 and reduction commitments by Member States	Further net reductions required in Commission decisions of 29.6.1983	Total net reductions 1980-	
	'000 tonnes	% of EUR 9	('000 tonnes)	('000 tonnes)	'000 tonnes	% of 1980 Capacity
Belgium	16028	9.5	1705	1400	3105	19.4
Denmark	941	0.6	66	-	66	7.0
FED. REP. of Germany	53117	31.6	4810	1200(1)	6010(1)	11.3
Greece(2)	p.m.	p.m.	p.m.	-	p.m.	p.m.
France	26869	15.9	4681	630	5311	19.7
Ireland	(57)3	-	p.m.	p.m.	p.m.	p.m.
Italy	36294	21.5	2374	3460	5834	16.1
Luxembourg	5215	3.1	550	410	960	18.4
Netherlands	7297	4.3	250	700	950	13.0
United Kingdom	22840	13.5	4000	500	4500	19.7
EUR 9	168601	100.0	18436	8300	26736	15.9

(1) Without taking into account the particular case of one company

(2) No figures available since Greece was not a Member of the Community in 1980

(3) The information on which the Commission based its decision is not sufficient to provide precise figures.

ONE EUROPEAN CURRENCY UNIT = APPROXIMATELY $0.78 as of JULY 25, 1984

Table 2

AID PAYMENTS TO THE COMMUNITY STEEL INDUSTRY AUTHORIZED BY THE COMMISSION UP TO 29.06.1983 IN APPLICATION OF THE FIRST AND SECOND AIDS CODES (in millions of ECU's)

Country	Grants/ interest relief grants	Capital/ participatory loans	Conversion of debts into capital	Reduced interest rate loans	Guarantees/ market rate loans	Others
BELGIUM						
Cockerill-Sambre	-	493	548	77	270	-
Other companies	33	-	-	-	136	-
DENMARK	-	39	-	-	-	42
FEDERAL REPUBLIC OF GERMANY						
Arbed Saarstahl	442	-	-	1	89	29
Hoesch	40	-	-	52	-	-
Klöckner/Maxhütte	31	-	-	-	-	-
Other companies	10	-	-	4	2	-
FRANCE						
Sacilor	2	1,455	-	-	340	-
Usinor	2	1,518	-	-	353	-
IRELAND	44	-	-	-	32	-
ITALY						
Finsider	123	265	-	307	-	-
Other companies	912	-	-	54	-	-
LUXEMBOURG						
Arbed	70	2	-	26	44	2
NETHERLANDS						
Hoogovens	15	-	-	-	79	-
UNITED KINGDOM						
British Steel Corporation	-	3,055	-	-	-	
Other companies	33	-	-	1	-	-
TOTAL EEC	1,757	6,827	548	522	1,345	73

Note: Conversions have been made at the exchange rates applying on 30.9.1982.

able 3

OUNT OF AID TO THE COMMUNITY STEEL INDUSTRY UNCONDITIONALLY AUTHORIZED ON 29.06.1983 (in millions of ECU's)

Country	Grants/ interest relief grants	Capital/ participatory loans	Conversion of debts into capital	Reduced interest rate loans	Guarantees/ market rate loans
BELGIUM					
Cockerill-Sambre	38	493	1,122	-	608
Other companies	5	30	33	-	1
FEDERAL REPUBLIC OF GERMANY					
Arbed Saarstahl	484	-	-	-	-
Other companies	2.205	-	-	8	917
FRANCE					
Sacilor/Usinor	-	3,943	-	-	-
TALY					
insider	2,156	4,488	-	1,512	-
ther companies	416	37	-	-	-
UXEMBOURG					
rbed	154	59	-		182
ETHERLANDS					
oogovens	74	272	-	8	58
edstaal	3	-	-	-	-
ITED KINGDOM					
itish Steel Corporation	200	2,474	-	-	-
TAL EEC	5,740	11,796	1,155	1,529	1,766

Note: Conversions have been made at the exchange rates applying on 30.9.1982.

Table 4

AID PAYMENTS TO THE COMMUNITY STEEL INDUSTRY RELEASED BY THE COMMISSION AFTER 29.06.1983 (in millions of ECU's)

Country	Grants/ interest relief grants	Capital/ participatory loans	Conversion of debts into capital	Reduced interest rate loans	Guaranteed market rate loans
BELGIUM					
Cockerill-Sambre	-	164	-	-	-
FEDERAL REPUBLIC OF GERMANY					
Arbed Saarstahl	140	-	-	-	-
Hoesch	-	-	-	-	33
Other companies	1	-	-	-	-
FRANCE					
Sacilor and Usinor	-	1,831	-	-	-
IRELAND					
Irish Steel	-	-	-	-	20
TOTAL EEC	141	1,995	-	-	53

Note: 1. Conversions have been made at the exchange rates applying on 30.9.1982.
2. The aids in this table are also included in table 3 or 5.

Table 5

AID TO THE COMMUNITY STEEL INDUSTRY CONSIDERED ON 29.06.1983 TO BE INCOMPATIBLE WITH THE COMMON MARKET UNLESS CERTAIN CONDITIONS ARE MET (in millions of ECU's)

Country	Grants/ interest relief grants	Capital/ participatory loans	Conversion of debts into capital	Reduced interest rate loans	Guarantees/ market rate loans
BELGIUM					
Sidmar	-	77	245	-	-
Other companies	36	31	25	-	-
GREECE					
Metallourgiki Halyps	4	-	-	-	-
Sidenor	2	-	-	-	-
IRELAND					
Irish Steel Ltd.	-	129	-	-	26
UNITED KINGDOM					
Sheerness Steel	9	-	-	-	-
TOTAL EEC	51	237	270	-	26

Note: Conversions have been made at the exchange rates applying on 30.9.1982.

STATEMENT OF MAYOR RICHARD S. CALIGUIRI, PITTSBURGH, PA, ACTING CHAIRMAN, LOCAL OFFICIALS FOR FAIR TRADE

Mr. Chairman, my name is Richard S. Caliguiri, and I serve as Mayor of the City of Pittsburgh, Pennsylvania. Thank you for this opportunity to submit testimony as part of your official record on H.R. 5081, the Fair Trade in Steel Act.

This testimony is also submitted on behalf of LOCAL OFFICIALS FOR FAIR TRADE (LOFT), of which I am Acting Chairman.

LOCAL OFFICIALS FOR FAIR TRADE is a non-partisan organization of local officials who have joined together to urge action at the national level against unfair trade practices of foreign governments and their companies which have had a significant economic impact on our local American communities. Our membership includes over 130 officials from 18 states.

As local officials, we are among the first to witness the high price the United States pays for unfair trade. Plant closings, job lay-offs, economic dislocation -- each is felt by local officials, along with the associated cost to government in loss of tax revenues and higher outlays for local efforts to help those who have been hurt by unfair trade. I stand before you today to reinforce in your minds the need for total and effective relief from unfair steel imports as a means for alleviating the human and social injury experienced in many communities across this country.

We have all been apprised of the aggregate impact figures -- the more than 200,000 unemployed steelworkers, the low levels of capacity utilization and the more than $7 billion lost by the domestic industry during the last two years -- associated with import levels that have increased to more than 25% of the domestic market. I would like to describe for you the injury suffered at the community level as a result of these problems.

First of all, consider the unemployment figures at the community level. The unemployment rate in the four county Pittsburgh Metropolitan area stands at 11.1% or roughly twice the rate experienced during the mid 70's and 50% higher than the current national rate. However, the unemployment rate in the Monongahela Valley, which is the major steel producing region in the southwestern Pennsylvania area and is located just southwest of the City of Pittsburgh, has reached 25% levels during the last two years and currently stands at 16%, or double the national rate. The decline of the steel industry as a major employer is the most significant contributing factor to these high rates of joblessness in the area. Steel employment in the Mon Valley area exceeded 26,000 workers just five years ago, but currently stands at 12,000 -- representing an unemployment rate among steelworkers in excess of 50%. The figures are similar for the larger Metropolitan area, where 46,000 fewer direct steel jobs exist today as compared to five years ago.

The figures are obviously staggering; however, the statistics cannot begin to adequately describe the human impact associated with such high unemployment rates. The loss of income, exhaustion of accumulated savings and often times the ultimate loss of homes and personal possessions has become an all too frequently occurring story in these communities.

The despair and frustration experienced by individuals becomes a community problem over protracted periods of high unemployment, and a basic distrust of government and other societal institutions can become apparent quickly. People look to their elected officials to remedy their problems, and expect government leaders to act responsibly and decisively. Unless those elected leaders meet these obligations quickly, frustration can lead to anger and in some cases violence, and these displays can quickly serve to counteract all efforts to resolve the basic problems. In short, the individual human tragedy becomes a collective societal problem.

These community problems bear significant costs. As an example, I have included as an attachment to this testimony a list of social service programs in the Buffalo and Erie County, New York area, both of which are organizing members of LOFT. That attachment defines the increased pressures placed upon social service agencies in the Buffalo area to meet the human needs of unemployed workers formerly associated with a steel facility located there that has been all but shut down. To summarize the major points presented in that attachment, significant increases have occurred in the demand for services ranging from emergency food provisions to mortgage default programs and charitable financial assistance, as well as counseling for child abuse and battered spouse services.

The monetary costs associated with the increased demands placed upon such social service programs can easily become quite high. For instance, increases in emergency relief services for the unemployed have required an additional outlay of $2.2 million between 1982 and 1984 in the Birmingham, Alabama area, which is another LOFT member community. And please keep in mind that these increased demands and outlays are being placed upon us at a time when declining income and public revenues, as direct results of increasing unemployment, are making such services less affordable to the community.

There are additional costs involved in accounting for the effects of high unemployment in our communities, some of which are shared by state and federal units of government. The most direct cost is obviously the cost of unemployment itself as evidenced through compensation payments that must be made to idled workers. In the Pittsburgh area, for instance, unemployment compensation payments made to laid-off steelworkers exceeded $58 million in 1983 alone. In the Youngstown-Warren Ohio area such compensation payments to unemployed steelworkers amounted to another $60 million during the same year. Similarly, the Lake County Indiana area, which is another LOFT member community, has seen a more than 200% increase in unemployment benefits paid to laid-off steelworkers in comparing first quarter outlays between 1979 and 1984.

These unemployment compensation figures have a longer term impact upon our communities with respect to our ability to recover jobs and business activities. States such as Pennsylvania and Ohio, which have accumulated debts to the federal government of $2.1 and $2.0 billion respectively, can only reduce that debt through increased assessments against ongoing businesses and workers. The net longer term effect places such states at a comparative disadvantage with respect to potential business growth and economic stabilization.

In addition, the decline of steel employment and production exerts devastating influences upon other existing industries in our communities as industrial bases become eroded. In the Pittsburgh area, for example, the decline of steel as a major employer and economic force has influenced additional cutbacks and closings by other firms, including Westinghouse Electric Corp., Mesta Machinery, Dravo Corp. and Continental Can Company. Similarly, the loss of 78% of the 9,000 jobs at the Fairfield Steel Plant since 1978 has contributed significantly to an unemployment rate of 11% in the Birmingham, Alabama area and the closing of the Conncors Steel and Pullman-Standard Car Plant facilities. In the Lake County Indiana area, where 18,000 steel jobs were idled between 1978 and 1983 and the overall unemployment rate jumped from 7% to 19% during that same time period, an additional 33,000 non-direct steel jobs have been lost.

Finally, the Youngstown-Warren Ohio area has suffered the permanent loss of more than 20,000 steel jobs during the decade ending last year as well as an additional loss in excess of 15,000 jobs in non-steel sectors, while the unemployment rate has climbed from 6% levels in the mid 70's to as high as 23% in December of 1982.

I have given you only a very small example of the extent to which steel unemployment has affected our communities. As I mentioned earlier, the figures are often staggering, but statistics are extremely inadequate tools for measuring human misery and community strife. I plead again that you keep in mind that the numbers represent real people and real problems.

In May of this year I testified before the International Trade Commission in support of injury determinations against unfair steel imports which serve as a major cause of the high unemployment in many industrial communities. I must say that we as local officials represented in the LOFT organization were disappointed that the ITC dismissed almost one-third of all steel products as not being injured by imports. Despite this disappointment, we applauded the ITC for its recognition of the injury being felt by people and communities as a result of unfair steel trade in the remaining product areas.

In June, I presented similar testimony before the ITC at the remedy phase of its investigation. Our hope was that the Commission would recommend a five year, fifteen percent average quota on imported steel to the President, as the only fair and effective solution to the problems facing our communities.

Unfortunately, the remedies as announced by the ITC on July 11th are, for the most part, ineffective. First, almost one-third of all steel products were afforded no remedy since the ITC rendered a "no injury" decision during its injury investigations in May. In specific, the following product areas are not covered under the ITC's recommendations: pipes and tubes, bars, wire rods and rail products. As a result, foreign producers are given the opportunity to shift production from covered to uncovered products to avoid restrictions.

Second. Product categories for which the ITC recommends higher tariffs -- semi-finished and wire products -- are similarly in jeopardy. Experience has shown that price related restrictions are ineffective, particularly if higher tariffs are offset by higher subsidies by foreign governments.

Third. In the remaining categories, the ITC recommends quota floors as well as ceilings. These floors may prove disastrous in that they establish a minimum level of imports regardless of market conditions. In a recessionary market such as has been the case in steel over the last few years, foreign producers would be guaranteed market share at the expense of domestic producers.

On the "up-side", ceilings are recommended as percentages of market shares. The effectiveness of these ceilings may vary; some ceilings are being questioned as to whether they are higher than previous annual totals.

In short, the risk seems to be borne by workers, communities, and the industry while imports are guaranteed. If any progress is to be made in alleviating the tragic human impact, a more effective remedy is needed. Having exhausted all remedies short of legislation and having only disappointment to show for it, passage of the Fair Trade in Steel Act is needed now more than ever.

We have seen the effects and felt the consequences of previous measures which have been implemented to combat unfair steel imports. Our communities have been the ones to suffer the consequences of ineffective measures such as the Trigger Price Mechanism, tariffs and quota/tariff packages, as evidenced by the growing unemployment related problems which I have alluded to in my testimony. We believe that anything less than the five year, fifteen percent quota remedy being sought here will be grossly inadequate in relieving the human and community injury which we have asked you to take into consideration.

In behalf of the more than 200 communities whose names appear on the attached list, I thank you again for this courtesy.

Local Officials Indicating Support for this Testimony

LOFT Organizing Committee:

Mayor Richard Arrington, Jr.	Birmingham, Alabama
Mayor Allen Cannon	Baytown, Texas
Mayor James E. Ferguson	Provo, Utah
Comm. Tom Foerster	Allegeny County, Pennsylvania
Mayor James D. Griffin	Buffalo, New York
Mayor Richard Hatcher	Gary, Indiana
Mayor Paul M. Marcincin	Bethlehem, Pennsylvania
Comm. John E. Minnich	Dauphin County, Pennsylvania
Mayor William Muegge	Wheeling, West Virginia
Mayor Johnny T. Nichols	Fairfield, Alabama
Mayor Ron Rives	Pittsburg, California
County Exec. Edward J. Rutkowski	Erie County, New York
Mayor William D. Schaefer	Baltimore, Maryland
Comm. N. Atterson Spann, Jr.	Lake County, Indiana
Mayor George D. Voinovich	Cleveland, Ohio
Mayor Joseph J. Zahorec	Lorain, Ohio

Additional Officials Indicating Support

Mayor Mary Anderson	Kinney, Minnesota
Mayor Clifford D. Arnold	Michigan City, Indiana
Mayor Saul Beck	East Chicago Heights, Illinois
Mayor Gerard Bibeau	Ely, Minnesota
Pres. Common Council, George W. Carlson	Hammond, Indiana
Mayor Francis Carr	Alliance, Ohio
Mayor Frank Cerkdenik	Mt. Iron, Minnesota
Mayor Don Cole	Babbitt, Minnesota
Mayor Tom Coogan	Melvindale, Michigan
Mayor John Craig	Grand Rapids, Minnesota
Mayor Stephen J. Daily	Kokomo, Indiana
Mayor Delbert Demmer	Massillon, Ohio
Mayor James Doig, Jr.	River Rouge, Michigan
Clerk Treas. Town Brd. Paul Douherty	Highland, Indiana
Mayor Thomas G. Dunn	Elizabeth, New Jersey
Mayor James Forsythe	Crown Point, Indiana
Mayor Frank Furlan	Chisholm, Minnesota
Pres. Council, Richard Galambos	Lake County, Indiana
Mayor Robert E. Goin	Portage, Indiana
Mayor Joseph Granchuk	Whiting, Indiana
County Exec. Eugene R. Hartzell	Northampton County, Pennsylvania
Mayor Harry Helmer	Hoyt Lakes, Minnesota
Comm. Donald P. Hutchison	Baltimore County, Maryland
Mayor H. J. Elmer Johnson	Virinia, Minnesota
Mayor Dennis Kealy	Buhl, Minnesota
Mayor Frank Keesler	East Alton, Illinois
Mayor Robert Kind	Silver Bay, Minnesota

Mayor Frank Lada	Downriver Community Confer., Michigan
Mayor Louis L. LaMourie	Lansing, Illinois
Mayor Paul Lenz	Alton, Illinois
Mayor Norman M. McKay	Dolton, Illinois
Mayor Mary Mellin	Gibralter, Michigan
Mayor John Niemi	Aurora, Minnesota
Mayor Dick Nordvall	Hibbing, Minnesota
Mayor Charles Panici	Chicago Heights, Illinois
Mayor Robert Pastrick	East Chicago, Indiana
Mayor Herbert Pfuhl	Johnstown, Pennsylvania
Mayor Sam Purses	Canton, Ohio
Mayor Thomas Radich	Lackawanna, New York
Mayor Stephen R. Reed	Harrisburg, Pennsylvania
Mayor Eugene Riek	Westmont, Pennsylvania
Comm. Chrm. Joseph P. Roberts	Cambria County, Pennsylvania
Mayor Mike Sasyk	Madison, Illinois
Mayor Dr. Martin Schneider	Lebanon, Pennsylvania
Mayor Paul Schuler	Granite City, Illinois
Mayor Kenneth Slifka	Ecorse, Michigan
Mayor Joseph Smaron	Posen, Illinois
Mayor Lon Smith	Wood River, Illinois
Mayor William A. Sparger	Markham, Illinois
Mayor Robert Stefanik	Calumet City, Illinois
Mayor Elmer Sundquist	Marble, Minnesota
Mayor Pat Ungard	Youngstown, Ohio
Mayor James Wagner	Wyandotte, Michigan
Mayor Robert Williams	Nashwauk, Minnesota
Mayor Robert Woods	Biwabik, Minnesota

Mayor Arthur L. Hartley	Lake Station, Indiana
Mayor William W. Knight	Munhall, Pennsylvania
Mayor James A. Sepesky	Monessen, Pennsylvania
Mayor Gene E. Stewart	Sylacauga, Alabama
Louis J. Barrier, Chrm. Brd. of Selectmen	Manchester, Massachusetts
Mayor Robert B. Blackwell	Highland Park, Michigan
Damian G. Murray, Frehldr. Dir. Ocean Cnty.	Tom River, New Jersey
Mayor John A. Regis	Martins Ferry, Ohio
Comm. Edward M. Swiger, Jefferson County	Steubenville, Ohio
Mayor George Saxon	Donora, Pennsylvania
Mayor Eugene Pacsi	Farrell, Pennsylvania
Terry P. Burkhart, Exec. Director	Wheeling, West Virginia
Comm. John Tominack, Ohio County	Wheeling, West Virginia
Comm. Chriss H. Doss, Jefferson County	Birmingham, Alabama
Jerry F. Costello, Chrm. County Board (St. Clair County)	Belleville, Illinois
Comm. Larry D. Sheets, Porter County	Valparaiso, Indiana
Mayor Ernest L. Wyatt	Jenkins, Kentucky
Mayor Joseph M. Tinsley	Worcester, Massachusetts
Mayor Wallace E. Holland	Pontiac, Michigan
Mayor J. P. Sunderlin	Cresson, Pennsylvania
Comm. Ted Simon, Westmoreland County	Greensburg, Pennsylvania
Mayor Stephen Simko	Homestead, Pennsylvania
Comm. Harry M. Fox, Armstrong County	Kittanning, Pennsylvania
Comm. Rose Marie Swanger, Lebanon County	Lebanon, Pennsylvania
Mayor Dale W. Yoho	New Castle, Pennsylvania

Mayor Alvin P. DuPont	Tuscaloosa, Alabama
Mayor Dottie Heintz	Emeryville, California
Mayor Nathan A. Simon	Fontana, California
Comm. Jon H. Giguere, Pueble County	Pueblo, Colorado
Mayor Lon A. Smith	Wood River, Illinois
Jack C. Grant, Village President	Hennepin, Illinois
Comm. Ronald B. Quakenbush, Delaware County	Muncie, Indiana
J. Hugh Nichols, Howard County Executive	Ellicott City, Maryland
Bernard L. Berkowitz, Pres. BEDCO	Baltimore, Maryland
Mayor Gerald R. Helmholdt	Grand Rapids, Michigan
Mayor Frank K. Furlan	Chisholm, Minnesota
Mayor Richard A. Nordvold	Hibbing, Minnesota
John F. Gaffney, Freeholder Chairman (Atlantic County)	Northfield, New Jersey
Phillip R. Jacobs, Econ. Dev. Coordinator (Erie County)	Buffalo, New York
Jack Quinn, Jr., Town Supervisor	Hamburg, New York
Leonard Maher, Staff Representative	Amherst, Ohio
Mayor Kenneth A. Beier	Fostoria, Ohio
Comm. A. J. Sargus, Belmont County	St. Clairsville, Ohio
Mayor Garland John Gates	Shelby, Ohio
Comm. Thomas J. Carney, Mahoning County	Youngstown, Ohio
David K. Bausch, Lehigh County Executive	Allentown, Pennsylvania
Mayor Angelo Caruso	Latrobe, Pennsylvania
Comm. Norman P. Hetrick, Dauphin County	Harrisburg, Pennsylvania
Sidney A. Reese, Chief Clerk-Dauphin County	Harrisburg, Pennsylvania
Mayor Lou Washowich	McKeesport, Pennsylvania
Mayor Robert T. Price	Sharon, Pennsylvania

Comm. Frank R. Mascara, Washington County	Washington, Pennsylvania
Mayor Carl Grant Smith	Wilmore, Pennsylvania
Mayor William H. Muegge	Wheeling, West Virginia
Lucien A. Morin, Executive, Monroe County	Rochester, New York
Mayor Sebastian J. Garafalo	Middletown, Connecticut
Mayor Win Moses, Jr.	Fort Wayne, Indiana
Comm. Robert William Cross, Jr., Scioto Cnty.	Portsmouth, Ohio
Comm. Anthony A. Latell, Jr., Trumbull Cnty.	Warren, Ohio
Mayor Daniel Britza	Aliquippa, Pennsylvania
Mayor D. L. Kowalski	Lower Burrell, Pennsylvania
Paul J. Shives, City Administrator	Monessen, Pennsylvania
Comm. Roger M. DeCarbo, Lawrence County	New Castle, Pennsylvania
Richard G. Galambos, Pres. Lake Cnty. Council	Crown Point, Indiana
Comm. Michael Gapin, Oneida County	Utica, New York
Robert A. Fonte, Stark County Administrator	Canton, Ohio
Gerald J. Patrick, V.P. Stark County Comm.	Canton, Ohio
Comm. Paula J. MacIlwaine, Montgomery Cnty.	Dayton, Ohio
Mayor Craig A. Closser	Yorkville, Ohio
Comm. Gerald J. LaValle, Beaver County	Beaver, Pennsylvania
Mayor Stephen R. Reed	Harrisburg, Pennsylvania
Ralph E. Mulhollen, Secy. Richland Twp. Super.	Johnstown, Pennsylvania
Mayor Norman Irvin	North Braddock, Pennsylvania
Eugene J. Sellaro, Pres. Monongalia Cnty. Comm.	Morgantown, West Virginia
George P. Gvoyich, Pres. Hancock Cnty. Comm.	New Cumberland, West Virginia
Mayor Donald T. Mentzer	Weirton, West Virginia
Mayor Lionel T. Wilson	Oakland, California
Comm. M. Earle Gaudette, Chrm. Bristol Cnty Comm	Taunton, Massachusetts

Joseph V. Borreggine, Freeholder Director	Camden, New Jersey
Frank J. Vacek, Chrm. Brd. of Super., Fulton County	Johnstown, New York
Mayor Anthony J. Giunta	Euclid, Ohio
Comm. Roger L. Javens, Beaver County	Beaver, Pennsylvania
Eugene R. Hartzell, Exec. Northampton County	Easton, Pennsylvania
Mayor John J. Dindak	West Homestead, Pennsylvania
Mayor William K. Durham	Sterling, Illinois
Mayor Charles Panici	Chicago Heights, Illinois
John S. Dull, County Attorney, Lake County	Crown Point, Indiana
Mayor James Wagner	Wyandotte, Michigan
Bruce E. Miller, Jobs Develop. Dept. Director	Columbus, Ohio
Comm. Ronald L. Nabakowski, Lorain County	Elyria, Ohio
Joe Rosenfeld, City Solicitor	Allentown, Pennsylvania
Comm. Lucille M. Trench, Vice Chairman County Comm. Bucks County	Doylestown, Pennsylvania
Mayor Joseph P. Walton	Greenville, Pennsylvania
B. Edward Smith, Council President	Johnstown, Pennsylvania
Thomas Esgate, President of Town Board	Porter, Indiana
Moises V. Vela, Cameron County Judge	Brownsville, Texas
Comm. Henry A. Wilson, Brooke County	Wellsburg, West Virginia
Comm. Alfred DeAngelis, Brooke County	Wellsburg, West Virginia
Comm. Gregg DeSantis, Brooke County	Wellsburg, West Virginia
Mayor Vince Teetshorn	Cresco, Iowa
Donald P. Hutchinson, Baltimore County Executive	Towson, Maryland
Mayor Daniel Pastore	Clairton, Pennsylvania
Mayor Stephen J. Daily	Kokomo, Indiana
Mayor Joseph S. Daddona	Allentown, Pennsylvania

Gary E. Cerkvenik, Chrm. St. Louis County Board	Virginia, Minnesota
Dempsie Henley, Liberty County Judge	Liberty, Texas
Mayor George M. Wyckoff, Jr.	Cumberland, Maryland
Mayor Jalmer T. Johnson	Virginia, Minnesota
Ronald M. Cowan, County Judge, Morris County	Daingerfield, Texas
Arthur Kipper, Pres. Town Board of Trustees	Chesterton, Indiana
Mayor Sam Purses	Canton, Ohio
Larry S. Pollack, Chief of Staff, Mayor's Office	Canton, Ohio
Comm. Pete Flaherty, Allegheny County	Pittsburgh, Pennsylvania
Comm. Barbara Hafer, Allegheny County	Pittsburgh, Pennsylvania
Comm. Steve Corey, Lake County	Crown Point, Indiana
Comm. Frank Stadula, Lake County	Crown Point, Indiana
Mayor Frank M. Sall	Lincoln Park, Michigan
Comm. Norm Hetrick, Dauphin County	Harrisburg, Pennsylvania
Comm. Larry Hochendoner, Dauphin County	Harrisburg, Pennsylvania

United Way
of Buffalo & Erie County
742 Delaware Avenue
Buffalo, New York 14209
716 - 887-2626

AGENCY	SERVICES	CHANGES IN DEMAND DUE TO UNEMPLOYMENT
1. Child & Family Services	Family Support Program	11/83-3/84 - 175 new cases. Projections for the'84 year are indicat a 140% increase. Resear and analysis of cases shows approximately a 2 year delay for problem to become acute. We therefore, expect the increase demand to go well into '85 and early '86, at least.
2. Buffalo Area Council on Alcoholism	Information and Referral Service	Changes seen during calendar '83 from '82 shows a 131% increase. During the most recent month, 135 clients sough assistance, of which some 60-61% were unemplo
3. Salvation Army	Family Emergency Needs, e.g., Food, Medicine, etc.	Increase in '83 vs. '82 was +37%, and +204% over '81.
4. Child & Adolescent Psychiatric Clinic	Family Violence	25% increase in case loa in the South Buffalo/ Lackawanna area alone.
5. Mental Health Association	Information and Referral Service	Increase case load of 10%.
6. Legal Aid Bureau	Civil Case Unit	60% increase in case load during '83 over '82. Cases are primaril involving clients inability to pay their legal obligations becaus of income loss.

AGENCY	SERVICES	CHANGES IN DEMAND DUE TO UNEMPLOYMENT
7. Parents Anonymous	Child Abuse	70% increase in case load during '83 over '82. Of 4,695 cases during '83, 90% were unemployed families.
8. Haven House	Battered Spouse and Child Shelter	Occupancy rate since January '83 has been 14% higher than ever before. Hot Line calls have increased 36%.
9. Housing Assistance Center	Mortgage Default Service	During '83, there was an 81% increase over the previous year, the majority of which were referred through FEMA.
10. Catholic Charities	Financial Assistance	Increased 173% over '82.
11. Neighborhood Legal Services	Bankruptcy and Benefit Cases	Increased 62% over '82, and 83% over '81.

Verner, Liipfert, Bernhard & McPherson,
Washington, DC, August 10, 1984.

Hon. Sam Gibbons,
Chairman, Subcommittee on Trade,
Committee on Ways and Means, Washington, DC.

Dear Mr. Chairman: Lone Star Steel Company submits this statement for the record of the hearing on Problems of the U.S. Steel Industry, held August 3 in room B-318 Rayburn House Office Building.

Robert Alpert, Chief Executive Officer of the Tubular Corporation of America (TCA) testified for these hearings before this Committee on August 3, 1984. In his testimony, he recommended amendments to H.R. 5081 requesting that the Committee exempt so-called "green tubes" from this legislation and any other trade measure imposing import restrictions on oil country tubular goods (OCTG). In addition, Mr. Alpert made various inaccurate assertions regarding "green tubes" which I would like to correct for the record.

Mr. Alpert's use of the term "green tube" is in itself misleading. TCA is the only company in the industry that uses the term as part of its effort to have green tubes subject to treatment different from other types of OCTG. While no industry definition of the term "green tube" exists, the name has been used to describe various types of OCTG, most commonly plain-end, non-API OCTG. "Non-API" indicates that the tubes have not been subject to the inexpensive testing procedure required to render the tubes eligible for the American Petroleum Institute stencil. Although it is possible to effect changes in green tubes to meet various specifications, they can be sold "as is" in the substantial market which exists for non-API OCTG and used in numerous applications with no or very little expense.

The fact that green tubes are satisfactory for OCTG end uses demonstrates the inaccuracy of TCA's contention that they are suitable only as raw material for further processing. It is purely TCA's own business choice as a steel processor to subject the green tubes it purchases to further processing before sale. However, this does not alter the character of green tubes as OCTG usable "as is" in wells after threading and/or testing. In fact, TCA's decision to engage in the business of upgrading the strength of the OCTG it purchases by heat treating it, regardless of the amount of value added in the process, reflects simply a preference that the product be used in a different type of well; it does not indicate that because it is subjected to this process, the green tubes were something other than OCTG at the time TCA purchased them.

TCA's assertions that the green tubes it purchases from foreign producers is somehow different from domestic OCTG and that domestic producers refuse to sell green tubes to TCA are equally inaccurate. Although TCA has not yet made public the sources, specifications and prices of its foreign supply, Lone Star believes that domestic producers have produced and sold the exact same type of OCTG which TCA purchases abroad. Major U.S. producers, including Lone Star, U.S. Steel and Republic Steel, routinely manufacture and sell such OTCG. In fact, TCA has admitted that is has purchased so-called green tubes from Republic Steel.

In addition, there is evidence showing that several other domestic OCTG producers submitted quotations to supply TCA with OCTG. CF&I Steel Corporation had extensive negotiations in an effort to meet TCA's OCTG needs. In none of TCA's inquiries or negotiations was there any indication that the plain-end non-API OCTG produced by domestic producers was inadequate for its purposes. Rather, it was because producers could not meet or even approach the prices charged for the foreign OCTG that they were unable to sell TCA domestically produced OCTG, thus providing further rebuttal to the claims of TCA that domestic OCTG producers do not compete with foreign producers of green tubes. In order to match foreign prices, domestic producers would have to sell at prices far below their variable cost of production. The effect would be to perpetuate the losses suffered by the producers as a result of unfair imports.

TCA claims that it has suffered irreparable harm as a result of trade arrangements which restrict imports of green tubes into the U.S. Moreover, TCA contends that any legislation providing statutory enforcement of such arrangements or an administrative action taken in response to recent countervailing duty and antidumping petitions against certain OCTG exporters will preclude imports of green tubes. Once again, TCA's claims are false. Imported green tubes will continue to be available to processors within the framework of pipe and tube relief. Legislative and administrative protection merely treats green tubes as what they are—part of the overall market for OCTG.

As a direct recipient of the benefit of dumped and subsidized OCTG, TCA has a substantial financial interest in protecting the advantage it gains from unfair imports by advocating the exemption on green tubes from current and future restrictions. However, if green tubes were not subjected to the import protection applied to other pipe and tube products, then foreign producers would divert production to green tubes in order to avoid restrictions. The certainty of diversion renders such relief meaningless.

If current U.S. trade laws were truly effective, TCA and other processors would have been denied unrestricted access long ago to dumped and subsidized green tubes. It is unfair to continue to permit TCA and other processors to benefit from supplies of green tubes where they are sold at less than fair value or subsidized, and cause injury to the domestic producers of competing products. Accordingly, the Committee should reject attempts to exempt this significant segment of imports any trade measures enacted to assist the steel industry.

Respectfully submitted.

ALAN WM. WOLF,
Counsel, Lone Star Steel Co.

STATEMENT OF HON. DAN MARRIOTT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF UTAH

Mr. Chairman, thank you for giving me the opportunity to submit testimony in behalf of H.R. 5081—The Fair Trade in Steel Act. I commend the Subcommittee Chairman for holding this hearing at this time for it is imperative to move this legislation forward so it can pass the House and be enacted into law this Congress.

As this Committee knows, I have always strongly supported free and fair trade in America and our American system of growth through competition. In defense of those very principles it is imperative we enact the Fair Trade in Steel Act of 1984.

Today, we stand at a crossroads for our domestic steel industry. It is quite clear to me that by what we, as elected leaders of America, do now we are determining whether, we save or lose our steel industry.

The steel industry is critical to the State of Utah—the people I represent. Presently, there is only one full integrated steel plant now left in operation in the entire West. This steel plant is in my state—Geneva Works, U.S. Steel, near Provo, Utah. I have discussed this problem with Utahns from across the state and I can unequivocally say to the Members of this Subcommittee that Utahns deeply care about the future of Geneva and the entire steel industry in this country.

Utah has a great deal invested in steel—families, jobs and homes. The healthy economy that steelmakers help to foster and support has been vital to my state for over three decades. Over the past year, many concerned Utahns have expressed deep seated concerns to me on this issue, concerns they would like to have expressed to my colleagues in Washington. As their Representative in Congress, I feel the need for a strong clear voice to express those concerns today to this Committee.

Let me acquaint you with the depressed Geneva steel industry in Utah. Just three years ago, Geneva Steel employed well over 5,500 employees. Since then that figure has dropped to roughly 3,000; a loss of well over 2,000 good paying jobs. You can be assured that this loss has been keenly felt, not only in Utah County, but throughout our state.

According to a recent suvey of local banks conducted by the Orem Chamber of Commerce, when the largest decrease in Geneva's employment took place, the resulting decline in business activity caused the income of Utah County banks for that year to drop to an historical low. The survey further noted that any announcements on employment activity at Geneva have a direct impact on business activity not only in Orem, but also in the surrounding Utah communities. The slightest rumor of impending layoffs cause a decrease in sales for much of the retail business. One large local retail firm in Orem reports that sales to Geneva employees once accounted for 25 percent of their business. With the decline in employment at Geneva, that figure now is close to 10 to 15 percent which as you can well understand, has held a negative impact on their total success.

Of course, Mr. Chairman, the greatest loss has been felt by over 2,000 displaced steel workers and their families. It is by listening to the countless stories of steelworkers who have lost their homes that we come to realize the magnitude of the depression which has gripped not only my constitutents in Utah but the the steel industry nationwide.

As I mentioned earlier, Geneva Steel is currently employing 3,000 hard-working, productive American citizens qualified in an impressively wide variety of trades. These jobs that give good people pride and foster our American way of life. With 3,000 jobs, Geneva is by far the largest employer in basic industry in Utah valley, the third largest employer in Utah. With the right kind of investment, it not only can continue providing these jobs for years to come, but it also became a more stable source of employment. In the same light, If Geneva closes its doors, the West, and specifically Utah would lose 3,000 basic jobs and countless other support jobs—jobs that would be very difficult to replace.

This is one of the reasons why I want to help Geneva Steel. It deserves our help to remain competitive in the steel market NOW and for THE FUTURE. That is why it is up to us, here in Washington, to help instill the climate that will foster investment in steel. Others may be willing to bid farewell to what they refer to as "the smokestack" industries. I am not. I firmly believe there is no reason for us to turn our back on any industry or to ignore any citizen, in my state or in our nation, who want to work hard to produce, to save and to invest in our country.

I agree completely with those individuals testifying that "as far as steel in concerned, there is nothing fair or open about the trade taking place today." The situation as it now stands is neither free nor fair. As we all know, much of the steel bought in our country today is imported below its real cost of production. It is even more dramatic in the West, where, currently, imports have absorbed over fifty percent of our market.

Certainly, the West has been hardest hit by unfair imports. While steel imports have risen as high as 28 percent nationally, in the West, imports are now consistently running at over 50 percent. In fact, the West has been so devastated over the years by the deluge of subsidized imports that there are those contending that if an import quota on steel went into effect nationwide there are not enough American steel producers left in the West to meet the resulting demand.

I must take strong exception to that contention here and now. The proposed legislation has been carefully written to adjust the import limits to our current available steel producing capacity as a nation. H.R. 5018 will keep the market for steel in the West a fair market. Since Kaiser Steel closed last fall, foreigners now have complete control of the Western market. As anyone experienced in retailing business is well aware, those who control the market control pricing. We must keep the Western market fair if our American steelworkers are going to earn the improvements they desperately need to stay competitive. In Utah, our steelmaking industry has not gone bankrupt and we don't intend to do so. Instead, we are determined to do something decisive to stem the tide that has closed down so many other American steelmakers.

With enactment of this legislation the opportunities for the steel industry would be revitalized again—especially in the West. This will occur only if our government, our companies, and our laborers work together and enact the Fair Trade and Steel legislation.

Nowhere is there a better opportunity to build our steel industry for years to come than in Utah, and particularly at United States Steel's Geneva Works. No plant in the nation has a greater stake in the successful passage of Fair Trade in Steel Act than Geneva does. It is an efficient plant, and in many ways a modern plant. But it needs key modernization if it is to have a long range future.

Over the past three years, while plant after plant across the nation has gone down, victim to the worst depression ever to hit our country's steel industry in over thirty years, by doing what they have to do to survive, the employees of Geneva have been writing a success story.

I am sure that this Committee is fully aware that on July 11, 1984, the International Trade Commission voted 3 to 2 to recommend a "broad and comprehensive program" of quotas and tariffs to President Reagan on the five steel products (sheet and strip, semi-finished steel, plates, structurals and wire and wire products) where the Commission earlier found the domestic industry to be seriously injured by imports during its investigation into the Section 201 complaints filed by Bethlehem Steel Corp. and the United Steelworkers of America. This timely recommendation is a step in the right direction and is one that gives credence to the urgency of this legislation.

In summary, foreigners control the market in the West. In the interest of our nation, we cannot let the foreigners who control that Western market be the ones who decide whether or not we build our steel industry or lose it. The Fair Trade and Steel Act will keep us in control. It will still allow more steel to be imported into our nation than our foreign competitors now allow into theirs. It will be temporary, become effective only long enough to give our steelmakers some relief and allow them earn some capital to rebuild their plants.

We must work together here in Congress, in management, and in our unions, to assist our steel industry become modernized so that it can be competitive in the world market. I am totally committed to do my part. I have discussed the problem and possible solutions at length with my constituents in Utah and I know they are committed to doing their part. By passing this legislation, we, in Congress, can demonstrate to America that we are all equally committed to maintaining a successful, competitive steel industry—a necessary industry for a great nation.

I would like to thank the distinguished Subcommittee Chairman for allowing me to testify in behalf of this very worthwhile piece of legislation. I thank the Subcommittee Chairman for moving this bill as quickly as possible through the legislative process and would like to see H.R. 5081 acted upon this Congress.

STATEMENT OF HON. BARBARA A. MIKULSKI , A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. Chairman, I want to thank you for this opportunity to speak to the Ways and Means Subcommittee on trade about H.R. 5081, the "Fair Trade in Steel Act".

This bill is the most important steel legislation now in Congress. It should become law. Forcing the U.S. steel industry to compete with foreign producers who sell government subsidized steel in this country may be "Free Trade", but it is not Fair Trade.

According to data compiled by the American Iron and Steel Institute, steel imports have once against topped 2 million tons. This is the first time ever that steel imports have topped 2 million net tons in two consecutive months. Imports in February totaled 2,161,000 net tons, slightly above the 2,082,000 net tons reported in January, and nearly double the 1,157,000 tons reported in February of last year.

Every million tons of imported steel "steals" the jobs of 4,500 American steelworkers. High unemployment among steel workers and plant closings have been the direct result of the inability to curb the importation of foreign subsidized and dumped steel on the U.S. domestic market.

In 1983, steel imports cost 75,000 American steelworkers their jobs.

H.R. 5081 may be the last chance for recovery of the American steel industry. It is certainly the best chance to formulate a national steel policy. Not only do the unfairly traded steel imports injure the domestic steel industry and employment, but we must recognize that our steel industry is critical to the national defense and the industrial base of this country.

I agree with Bethlehem Steel Chairman Donald Trautlein, "American trade policy is pushing American steel towards extinction".

The current Administration, through the Secretary of Commerce, Mr. Baldrige, and the U.S. Trade Representative, Ambassador Brock, has expressed its opposition to H.R. 5081. One of the arguments used against the bill is that the enactment of steel mill product quotas is unnecessary because the steel problem is being handled through the administrative procedures established in the trade laws.

This claim is unsupported by the facts. During the first three years of this administration over 100 steel unfair trade practice cases have been filed by steel companies and processed by the Department of Commerce. These cases are very expensive for the steel companies, are time consuming and are adversary in nature. And yet the fact remains that the foreign steel import penetration (which averaged 13.35% during the Nixon/Ford Administration and 16.85% during the four years of the Carter Administration) has, during the first three years of the present Adminsitration, averaged 20.4%. So far this year, it is over 26%.

The truth is that unfair trade cases cannot be prepared fast enough, and the procedure operated quickly enough to solve the problem. And, in any event, relief is not retroactive but only protective. Consider the Brazilian situation: additional unfair trade duties now have been applied on some products, but in the last three years Brazilian dumped and subsidized imports have increased from 550,000 tons to 1,250,000 tons and the duty effect is just catching up.

The reality is that the dumping and subsidization of foreign steel is so extensive—so pervasive—that the procedures established to deal with it simply have not done the job, irrespective of the best efforts of the steel companies and the best intentions of the Administration.

Subsidized imports are not the only factor in the decline of the American steel industry, but they are a factor that we can see and feel, that can be documented and dealt with by law.

We must change our steel policy course; last year was the worst trade year in history. We need a healthy steel industry. H.R. 5081, the Fair Trade in Steel Act, is the prescription for both.

National Association of Stevedores,
Washington, DC, April 24, 1984.

Hon. Sam M. Gibbons,
Chairman, Subcommittee on Trade, Committee on Ways and Means, House of Representatives, Washington, DC.

Dear Mr. Chairman: The National Association of Stevedores wishes to submit the enclosed Statement to be included in the record of hearings you have announced on trade issues relating to steel. I understand that the first of these hearings is scheduled for April 26, 1984, and will consider legislation pending before the Subcommittee including H.R. 5081 to impose steel import quotas.

On September 28, 1982, the NAS appeared before your Subcommittee to oppose H.R. 5133, the Domestic Auto Content bill. At that time, this Association expressed its total opposition to any legislation which would restrict free trade. Our position has not changed. The enclosed statement describes our practical and philosophical reasons for opposing H.R. 5081 or any legislation which could restrict free trade.

The NAS asks that we be allowed to supplement our statement with specific information from different port areas. The date of May 31, 1984, was given as the deadline for written comments. We expect to submit our supplemental data at that time.

Our members and our association staff would be happy to answer questions that you or your staff may have on our statement.

Sincerely,

Charles K. Unger,
Assistant Executive Director.

Enclosure.

Statement of Charles K. Unger, Assistant Executive Director, National Association of Stevedores

The National Association of Stevedores is a trade association whose 49 privately owned member companies engage in stevedoring and marine terminal operations on all four of the nation's seacoasts, the states of Alaska and Hawaii, and Commonwealth of Puerto Rico. NAS member companies contract to load and unload ships which call at this country's ports in both domestic and foreign commerce and employ longshore labor to accomplish those functions. A listing of our members is attached to this statement. Also attached is a copy of "The U.S. Stevedoring and Marine Terminal Industry," a study jointly produced by the Department of Transportation and the NAS, which quantifies the effect of this industry on the economic health of the nation's ports. The economic condition of the nation's ports is often a barometer which indicates future economic conditions for this country.

Recent Department of Commerce statistics show that over 95 percent by weight of this nation's foreign commerce moves by ships, ships that are loaded or unloaded by NAS member companies and the American longshoremen they employ. Enactment of any legislation which would impose artificial barriers to the commerce of the United States must be vigorously opposed. Such legislation is contrary to this country's commitment to free and unencumbered trade and invites retaliation from our partners in trade worldwide. Such legislation has a direct, severe and immediate adverse impact upon NAS member companies and their employees. It eliminates or reduces their employment. To attempt to create jobs for one industry and its employees at the expense of another simply doesn't make any economic sence, even though, there are those who think it might make domestic political sense.

The stevedoring/marine terminal industry and its employees will be the first to feel the severe impact of the implementation of any legislative restriction on the importation of steel into the United States. The port of Detroit would not simply suffer a severe reduction in volume due to restrictions on imported steel, but might even be forced to close down completely. This fate also might also be shared by other Lake ports such as Cleveland and Chicago. During the 1983 calendar year, the two Detroit stevedores handled 1,048,270 tons of imported steel. Approximately 250,000 man hours were required to discharge this imported steel. If we assume that a full time worker on the Detroit waterfront works an average of 1,250 hours per year loading and unloading ships; then the 250,000 man hours represent 200 jobs. The workers doing the actual loading/unloading are not the only ones who will be displaced. The U.S. Department of Transportation cites an employment multiplier of 1.6 for stevedoring in its recent study.[1] Applying this multiplier to the figure of 200 direct jobs, yields a total of 320 Detroit area jobs that are jeopardized for the benefit of the domestic steel industry. Of course this scenario will be replicated in virtualy all the steel importing ports if legislative restrictions are imposed.

The NAS will submit for the record more detailed information regarding the potential loss of business and employment which would occur if H.R. 5081 were to be enacted. This information is being provided by our member companies, and will reflect the practical consequences of legislation such as H.R. 5081.

Stevedore and marine terminal companies have substantial fixed operating costs, including terminal rentals, property taxes, equipment financing, maintenance and repair costs, and in some ports guaranteed annual wage payment commitments under collective bargaining agreements. Those costs remain constant despite the amount of work and must be paid, or bankrupt declared. If there is a substantial loss of revenue due to the loss of annual steel imports, that revenue loss must come from another source. The only source available to NAS members is other American imports or exports. Stevedore/marine terminal operators would be obliged to raise their charges to other customers who in turn must raise theirs. The American consumer or exporter then ultimately will pay the increased cost. In the end, everyone ends up subsidizing the American steel industry and its workers. That just is not fair and makes neither economic nor political sense. Therefore, the NAS is unalterably opposed to steel import restrictions or any other attempt to impose artificial and unwarranted barriers to the free trade of this country.

MEMBERSHIP OF NATIONAL ASSOCIATION OF STEVEDORES

Almont Shipping Company, Wilmington, North Carolina.
Border Stevedoring, Brownsville, Texas.
Brady-Hamilton Stevedore Co., Portland, Oregon.
Carolina Shipping Company, Charleston, South Carolina.
Ceres Terminals Inc., Chicago, Illinois.
Christina Service Company, Wilmington, Delaware.
Cilco Terminal Company, Bridgeport, Connecticut.
John T. Clark & Son, Boston, Massachusetts.
Codan Corporation, Erie, Pennsylvania.
Cooper/T. Smith Stevedoring, Mobile, Alabama.
Bernard S. Costello, Inc., Boston, Massachusetts.
Detroit Marine Terminals, Inc., Detroit, Michigan.
Dix Shipping Company, Brownsville, Texas.
Dixie Stevedores, Inc., Houston, Texas.
Eagle Marine Services Ltd., Oakland, California.
Eller & Company, Inc., Fort Lauderdale, Florida.
Global Terminal & Container Services, Jersey City, New Jersey.
Gulf Stevedore Corporation, Houston, Texas.
Harrington & Company, Inc., Miami, Florida.
Independent Pier Company, Philadelphia, Pennsylvania.
Int'l Terminal Operating Co., Inc., New York, New York.
Int'l Transportation Service, Inc., Long Beach, California.
Lavino Shipping Company, Philadelphia, Pennsylvania.
Long Beach Container Terminal, Inc., Long Beach, California.
Maersk Container Service Co., Inc., Port Newark, New Jersey.
Maher Terminals, Inc., Jersey City, New Jersey.
Marine Terminals Corp. (of L.A.), Long Beach, California.
McCabe, Hamilton & Renny Co., Ltd., Honolulu, Hawaii.
Meehan Seaway Service, Ltd., Milwaukee, Wisconsin.
Metropolitan Stevedore Company, Wilmington, California.
Multi-Terminal Operators, Inc., Old San Juan, Puerto Rico.
New Bedford, Stevedoring Corp., New Bedford, Massachusetts.
New Haven Terminal, Inc., New Haven, Connecticut.
New Orleans Stevedoring Company, New Orleans, Louisiana.
New Terminal Stevedoring, Houston, Texas.
Old Dominion Stevedoring Corp., Norfolk, Virginia.
John J. Orr & Sons, Inc., Providence, Rhode Island.
Palmetto Shipping & Stevedoring Co., Charleston, South Carolina.
Pinney Dock & Transport Co., Ashtabula, Ohio.

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[1] U.S. Department of Transportation, Maritime Administration, "The U.S. Stevedoring and Marine Terminal Industry" (Washington, DC: March 1983), p. 2.

Port Stevedoring Company, Inc., Houston, Texas.
Rogers Terminal & Shipping Corp., New Orleans, Louisiana.
Ryan-Walsh Stevedoring Co., Inc., Mobile, Alabama.
Sealand Terminal Corp., Bayonne, New Jersey.
Shippers Stevedoring Company, Galena Park, Texas.
Southeast (Alaska) Stevedoring Corp., Ketchikan, Alaska.
Southern Stevedoring Co., Inc., New Orleans, Louisiana.
Stevedoring Services of America, Seattle, Washington.
Universal Maritime Service Corp., New York, New York.
Wilmington Shipping Co., Wilmington, North Carolina.
Young & Company of Houston, Houston, Texas.

National Association of Stevedores,
Washington, DC, May 31, 1984.

Hon. Sam M. Gibbons,
Chairman, Subcommittee on Trade, Committee on Ways and Means,
U.S. House of Representatives, Washington, DC.

Dear Mr. Chairman: The National Association of Stevedores submitted a statement to you on April 24th with a request that it be included in the hearing record. At that time, the NAS also requested the opportunity to submit supplemental data for the record. Please accept this letter as our supplemental submission.

In our statement of April 26, 1984, the NAS cited specific figures which predicted the loss of jobs in the port of Detroit if legislation such as H.R. 5081 were to pass. The attached chart repeats the figures for the port of Detroit and adds figures for the ports of New Haven and Bridgeport, Connecticut and Houston, Texas.

The figures for each port are approximate levels of steel imports for calendar year 1983. The man/hour figures are based on port-wide projections for the port of Houston while the ports of Detroit and New Haven submitted actual figures. The port of Bridgeport man/hour total is an estimate based on the ratio of imported steel to other cargo.

The number of Direct Jobs Lost was obtained by dividing the man/hour total in each port by 1,250. The figure of 1,250 hours was used because it represents a generally accepted level of full-time employment for a longshoreman. The number of Total Jobs Lost was obtained by multiplying the Direct Jobs Lost by 1.6. This employment multiplier was established by the U.S. Department of Transportation, and its source is footnoted in our original statement.

Of course, these figures are merely a sample of the ports handling imported steel. The tonnage of the ports listed is approximately one third of the total steel imports for 1983. Therefore, the total impact of legislation such as H.R. 5081 would be triple the total shown on the accompanying chart. These figures would be somewhat modified by the percentage of steel imports allowed by a particular bill.

Once again, the NAS wishes to emphasize its opposition to H.R. 5081 or any legislation which could restrict free trade.

Sincerely,

Charles K. Unger,
Assistant Executive Director.

Enclosure.

NATIONAL ASSOCIATION OF STEVEDORES—SUPPLEMENTAL DATA ON H.R. 5081, SUBMITTED MAY 31, 1984

Port	Tons/imported steel	Man/hours	Direct jobs lost (1,250 man-hour per job)	Total jobs lost (1.6 times direct jobs)
Detroit	1,048,270	250,000	200	320
New Haven	261,035	52,600	42	67
Houston	4,000,000	985,000	788	1,260
Bridgeport	336,000	56,000	45	72
Total	5,645,305	1,343,600	1,075	1,719

NATIONAL ASSOCIATION OF STEVEDORES,
Washington, DC, July 30, 1984.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade, Committee on Ways and Means,
U.S. House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The National Association of Stevedores submitted a statement to you on April 26, 1984 with a request that it be included in the hearing record. This initial submission cited specific job loss predictions for the port of Detroit if legislation such as H.R. 5081 were to pass. A subsequent submission dated May 31, 1984 cited similar predictions for the ports of New Haven and Bridgeport, Connecticut and Houston, Texas.

Today, we wish to add job loss predictions for the Port of New York/New Jersey based on the figures supplied by the terminal operator which handles most of the imported steel entering that port. The actual figures themselves are shown on the attached chart, which also serves as a recapitulation of our previous submission.

The number of Direct Job Lost was obtained by dividing the man/hour total in each port by 1,250. The figure of 1,250 hours was used because it represents a generally accepted level of full-time employment for a longshoreman. The number of Total Job Lost was obtained by multiplying the Direct Jobs Lost by 1.6. This employment multiplier was established by the U.S. Department of Transportation, and its source is footnoted in our original statement.

The National Association of Stevedores stands firm in its continuing opposition to any type of legislation or regulation which would restrict free trade.

Sincerely,

CHARLES K. UNGER,
Assistant Executive Director.

Attachment.

NATIONAL ASSOCIATION OF STEVEDORES—ADDITIONAL SUPPLEMENTAL DATA ON H.R. 5081, SUBMITTED JULY 31, 1984

Port	Tons/imported steel	Man-hours	Direct jobs lost 1,250 man-hour per job	Total jobs lost 1.6 times direct jobs
Detroit	1,048,270	250,000	200	320
New Haven	261,035	52,600	42	67
Houston	4,000,000	985,000	788	1,260
Bridgeport	336,000	56,000	45	72
New York/New Jersey	300,000	66,000	53+[1] 13=66	106
Total	5,945,305	1,409,600	1,141	1,825

[1] Terminal jobs performed by Longshore labor.

STATEMENT OF HON. HOWARD C. NIELSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF UTAH

Mr. Chairman, My message to the Subcommittee on Trade today is very simple. If Congress and the Administration do not act decisively to give the U.S. steel industry a temporary reduction of steel imports and a chance to modernize, then many of the 150,000 a currently on layoff will never go back to their former jobs and the jobs of those who are working are in jeopardy. In my District, over 2000 steel jobs have been lost during the past two year at Geneva steelworks. In October of 1981 Geneva had 4900 active employees. It now has about 2800. This has occurred despite the fact that Geneva management and union members have made dramatic sacrifices to keep Geneva off U.S. steels closure list.

Let me share with you some of the most significant achievement made at Geneva since 1982:

More steel is being made with fewer people by combining jobs, doubling up on duties, and increasing overall efficiency;

Everyone at Geneva has taken substantial cuts in wages and benefits;

Fuel efficiency has been improved by 20 percent. It now takes 20 percent less energy to produce a ton of steel than it did two years ago;

Overall tonnage costs have been reduced by more than 20% and production yield has increased from 69 percent in 1981 to 74% in 1983; and

The number of rejections once consistently ranged around 10 percent. The current average is under two percent which is the best record in Geneva's history.

As you can see, great sacrifices have been made to control costs and increase productivity. These sacrifices merit the support of Congress in order to let those involved in the steel industry compete fairly in a market that has not been fair in the past.

This Subcommittee is all to familiar with the statistics as they relate to foreign steel imports. In 1950, imported steel made up 1.4 percent of the U.S. market. In January 1984, imports of steel took a 26 percent share of the American market. More than 200 production facilities have closed and much of the reason can be attributed to the rise in imports.

We must first attack the dumping of foreign steel on our market at subsidized prices before we can attempt to solve the remaining problems within the steel industry. The American steel market is the last free market in the world and many government-owned and subsidized steel companies of foreign countries are taking advantage. The steel industry needs modernization to compete. The Fair Trade in Steel Act is explicitly based on the condition that the steelmakers continue to make sacrifices and that they revitalize and modernize their industry.

Hopefully, we have not waited to long to act. I encourage this Committee to continue in its consideration of the problems and solutions of unfair trading practices. Thank you for your time.

STATEMENT OF HON. HENRY J. NOWAK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

The problem of unfairly priced imports continues to plague our domestic steel industry. So far this year, foreign imports captured more than 25 percent of our domestic market for steel. Foreign steel import penetration averaged 13.35 percent during the Nixon-Ford Administration and 16.85 percent during the Carter Administration.

Steel imports flooded our market at the highest level for any quarter on record as shipments exceeded 6.4 million tons for the first three months this year.

As Robert B. Peabody, president of the American Iron and Steel Institute, explained it succinctly: "The domestic steel companies have lost over $6 billion in the last two years. Steel debt is now over 80 percent of equity. 40 percent of our work force has been lost in the last five years. There has been an acceleration of facility shutdowns. In 1983 alone, 15 million tons of capacity were shut down, an amount equal to the size of the Canadian steel industry or that of Great Britain. And clearly, more is yet to come."

We in Western New York have intimately felt the pangs of unfair import competition, having seen thousands of steel and steel-related jobs eliminated in recent years. If we are to preserve our steel industry from further decline, we must take strong action that will:

Enable our domestic industry to recapture the share of our domestic market for steel it needs, to obtain the revenues it needs, to invest in the plant modernization it needs to become more competitive.

The Fair Trade in Steel Act of 1984 is a response to the critical needs of this vital industry. It would set a 15 per cent limit on all steel mill products by product and country of origin for up to five years. The bill includes language clarifying the domestic steel industry's obligation to reinvest in steel operations and plant modernization as a condition for the establishment and the continuance of the import quotas.

In light of the failure of our efforts to seek voluntary restraint from our foreign trading partners, the failure of our unfair trade practice procedures to provide meaningful relief, and the continued rise in import penetration in our markets, mandated steel quota legislation is essential.

A major byproduct of quota legislation would be increased demand for domestic-made steel and increasing demand for American steel is crucial to our ongoing efforts to find new job-creating users or buyers of dormant Republic and Bethlehem Steel facilities in Erie County.

The Fair Trade in Steel Act would be a boost to those efforts.

Therefore, I urge the House Subcommittee on Trade to act expeditiously on The Fair Trade in Steel Act of 1984 and move this critical legislation to the floor of the House as quickly as possible.

STATEMENT OF HON. JAMES L. OBERSTAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

During this Subcommittee's extensive hearings on H.R. 5081, you have heard much testimony on the Fair Trade Steel Act of 1984; I participated actively in the drafting of this legislation and support it in its present version. I concur with the statements made earlier before this Subcommittee by my colleagues on the Congressional Steel Caucus and will confine my remarks today to those provisions I call the Fair Trade in Iron Ore Act.

This past Saturday, July 28, the people of northeastern Minnesota celebrated the 100th anniversary of the first shipment of iron ore from what later became the deepest iron mine on the North American continent at Tower, Minnesota. Over the course of this century, the three iron ranges of northeastern Minnesota, the Cuyuna, Mesabi, and Vermilion, have produced 3.2 billion tons of iron ore. This ore has sustained our country through two World Wars and the Korean and Vietnam Wars and has allowed for the vigorous building of America into the leading industrial nation in the world.

We in Minnesota have not been content simply to wrench ore from the ground, ignoring the limits of natural resources or the advance of technology. Even as the high grade ores were being depleted, scientists and engineers at the University of Minnesota and from the iron ore industry were developing new processing techniques to extract a higher grade product from low grade ores called taconite. Some $3 billion in private industry investment in taconite processing has kept northeastern Minnesota on the leading edge of technology in the iron ore industry. In many respects, iron ore processing is the most modern sector of the steel industry. Workers in the iron ore industry have vastly improved their productivity; shipping of the taconite pellets is carried out by the most modern vessels in the American merchant fleet; 1000 foot long self-unloading lakers that can unload a 60,000 ton cargo of pellets in an eight hour shift.

Yet, the taconite industry is under assault today by underpriced imports from sources subsidized or owned by foreign governments or sustained by below market rate lending from international financial institutions.

Mr. Chairman, what I am saying is that the iron ore and taconite industry heard and responded to the call for modernization without U.S. government support. Today that industry is on its knees because or iron ore imports unfairly priced and competing with unfair advantage.

To help some of my colleagues on the Congressional Steel Caucus understand how imports or iron ore have weakened our domestic industry, last March, the first Caucus hearing on H.R. 5081 was held in my district, in Hibbing, Minnesota, the heart of the great Mesabi Iron Range. At that hearing, Representative Joe Gaydos and Representative John Murtha and I heard from an impressive array of Minnesota witnesses who discussed the advanced state of technology in the iron ore industry and the severe economic distress the area has suffered because of pressure from imports. We also heard from a spokesman for the Reagan Administration who assured unemployed Minnesota steelworkers that economic recovery would cure all the ills of the steel and iron ore industries. The Administration wants industry to lower its costs and make greater efficiencies.

I am here to testify that economic recovery has not arrived in northeastern Minnesota. In 1983, 73,000 new jobs were created in Minnesota—but northeastern Minnesota experienced no net job gain. About half of those steelworkers employed in 1980 today still have jobs in the taconite industry. Some of them were lucky enough to keep their jobs through a long and hard recession; some are happy to be returning to their original jobs. Far too many others have not been so fortunate, and are still unemployed.

The Reagan Administration wants the industry to produce efficiencies. What the Administration calls "efficiencies" are not going to help this industry combat dumped imports. Minnesota's iron ore plants are highly modern—the National Steel Pellet Plant in Keewatin was redesigned in the late 70's and further updated last fall to produce the most modern pelletizing plant on the market. This plant is operating today at half throttle.

Minnesota's iron ore workers cannot make more wage concessions. They have conceded their wages, many have conceded their jobs and their homes. Some have all but conceded their hopes.

We cannot produce efficiencies to combat dumping margins of 51 to 100 percent. We cannot lower wages enough to make up for a $300 million World Bank loan to Brazil at below market interest rates to develop ore capacity which further expands the current world oversupply of iron ore, a World bank loan which helps Brazil deliver iron ore to Great Lakes steel mills or $12 less a ton than U.S. ores.

The American iron ore industry has suffered long and hard during the past recession. It has more than shared the unemployment and shutdowns that have plagued the steel industry. In 1983, iron ore imports took a 29.1 percent share of the domestic market, a far higher market share than steel imports. Today, we hear outrage from the steel industry because imports have reached 26 percent. The American iron ore industry has been burdened with more sustained and higher levels of imports: since 1976, iron core imports have averaged between 29 and 36 percent.

Sustained levels of ore imports have had the same effects on the American ore industry as high steel imports have had on the steel industry: unemployment and reduced capacity. It is difficult to convey the economic depression on the Iron Range of northeastern Minnesota, where about 55 percent of the gross regional product is directly related to the taconite industry. This industry will employ 8,000 this year, up from the record lows of 5,000 in late 1982 but far from the 15,000 jobs in iron ore mining in 1979.

Because northeastern Minnesota's economy is so heavily reliant upon iron ore production, the depression has shut down not only the mines but has also virtually shut down entire towns. In 1981, the eight iron ore plants had a payroll of $400 million and purchased $900 million in goods and services from 2,000 Minnesota firms. Last year, the payroll was reduced to $208 million and the industry purchased $450 million in goods and services, half the level of two years prior. This decline can also be expressed in very human terms—families have lost their homes, businesses have closed, skilled professionals, such as doctors, have moved out of the area.

Many of our unemployed steelworkers will never return to their former jobs in the taconite plants. As the mines have reduced their operations during the recession, steelmakers are contemplating permanent shutdown of a portion of our domestic iron ore capacity. Today, world excess capacity in both iron ore and steel may mean an increasing reliance by domestic steelmakers on cheap iron ore from foreign sources, often receiving heavy subsidies from their governments and international lending organizations.

Existing trade laws are not enough to stop the flood of iron ore imports. H.R. 5081 recognizes that the iron industry must share in the economic benefits of quota legislation on the steel industry. We cannot allow domestic steelworkers, protected from steel imports by a 15 percent quota, to turn arond and buy subsidized iron ore dumped on the domestic market. The iron ore mines on the Mesabi Iron Range will surely benefit indirectly from a steel quota—increased demand for American steel could add 1,500 jobs in iron ore.

But this legislation also recognizes the essential value of a strong iron ore industry to our national security and to our economic base. By placing a 25 percent quota on iron ore, we assure that the iron ore industry will share in the general recovery in the steel industry. The 25 percent iron ore quota would put another 1,000 iron ore miners back to work.

When we drafted the iron ore quota in H.R. 5081, we included two provisions which recognize that certain steel companies or individual plants may require imported ore. We have allowed two ways for these companies to petition the Secretary of Commerce to raise the quotas to the present level of ore imports 29 percent. First, those companies which entered into long-term contractural agreements on or before January 1, 1984, would be allowed to petition for an excedence of the 25 percent quota. Second, individual steel mills which rely on certain types of foreign ore, such as Sparrows Point in Baltimore, Maryland, would be allowed to request the Secretary to raise the quota if the mill cannot fill its needs within the 25 percent quota. It is important to note that the Secretary of Commerce first allocate the 25 percent quota to plants traditionally dependent on ocean-sourced ores before allowing for companies to exceed the quota.

The 25 percent quota on iron ore also recognizes the traditional global trading patterns of iron ore—the United States imports each year about two tons of Canadian ore for every one ton of non-Canadian foreign ore. We have also specified under this legislation that the Secretary must preserve this traditional ratio of Canadian and non-Canadian ore under the 25 percent quota. This provision assures that American manufacturers will not be able to import only cheap Brazilian or Venezuelan ore under the quota, shutting out one of our most important trading partners, Canada.

I would have liked a stricter quota on iron ore, but during the many hours of discussions with industry and labor, we molded this compromise to unite both groups behind this provision and the entire bill. The bill provides steelmakers with a certain flexibility for meeting their needs, while protecting American iron ore workers.

During the Steel Caucus hearing in Hibbing, one of the local steelworkers union presidents challenged the Administration representative to tour the area and meet some unemployed workers. Afterwards, this steelworker and the Administration spokesman toured a local public works project, where steelworkers now make minimum wage, barely enough to support a family, and a food shelf, where the unemployed can receive about one months worth of groceries a year.

That Administration official saw the economic devastation on the Mesabi Iron Range. He also saw the modern ore processing facilities, which are now idle, and met some of the highly skilled workers, who no longer have jobs. Here, we do not have a case of obsolete plants asking for protection, we have a streamlined industry seeking a chance to compete fairly in the domestic and world market. H.R. 5081 would provide the steel and iron ore industries that opportunity.

I am pleased that the Subcommittee has shown a willingness to finish its hearings on H.R. 5081. I would strongly urge you to move a markup as soon as possible to get this bill onto the House floor so that we can help our steel and iron ore industries to trade fairly.

As one president of a local steelworker union stated at the Steel Caucus hearing in Hibbing, "For northeastern Minnesota, fair trade must be reciprocal and not unilateral."

PACIFIC NORTHWEST STEEL FABRICATORS' ASSOCIATION,
Bellevue, WA, July 24, 1984.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade, Committee on Ways and Means, House of Representatives, Longworth House Office Building, Washington, DC.

DEAR CONGRESSMAN: In response to some of the questions that arose during the reception at your recent hearings in Seattle, Washington on July 9, 1984, the Pacific Northwest Steel Fabricators Association would like to take this opportunity to present to yourself and the other members of the Committee some preliminary information to assist the Committee. PNSFA input may help to unravel the diverse and subtle complexities evolving around the issue of imported structural steel fabricated products.

PSNFA submits for your information the following information and short term suggestions for your consideration:

A. In response to the question of how the steel fabrication industry and the domestic steel produced industry have concurrent and similar concerns regarding the import of structural steel fabricated products the representatives of PSNFA outlined to various Committee members how the antidumping provisions currently in force can be avoided through the importation of the finished fabricated product rather tnan the raw material.

The most recent case-in-point is the 15,000 tons of fabricated structural steel products currently being erected by the American Bridge Division of the United States Steel in the Columbia Center Building in Seattle, Washington. At the time of bid, domestic fabricators received erection bids (the assembly of the fabricated products at the building site) from the American Bridge Division of U.S. Steel. All domestic fabricators were assured that the price for erection services by American Bridge was the same price for erection that American Bridge was using in its overall bid for the fabrication and erection of the Columbia Center. This erection price was approximately $5 million.

The bids for the fabrication and erection of structural steel for the Columbia Center from domestic bidders ranged from $18 million to $20 million. American Bridge's bid for fabrication and erection was $13,200,000.00 using Korean fabricated steel pricing and American Bridge's erection price. Taking out the published erection price of American Bridge the difference between domestic fabrication prices and Korean fabrication prices was:

Domestic low—$13,000,000.00; Korean low—$8,200,000.00; percentage fabrication price differential—37%.

On a price-per-ton basis the breakdown of labor and material between domestic bidders and Korean bidders for the supply and fabrication of structural steel in the Columbia Center is as follows:

[In dollars per ton]

	Domestic fabricators	Korean fabricators
Labor	396	296
Material	480	250
Total	876	546

It is obvious that the imported fabrication product enjoys a substantial reduction in cost due the lower labor rates paid by Korean fabricators. However, the most dramatic difference in pricing occurs in an area where both fabricators should, under normal circumstances, be paying approximately the same amount. That category is the cost of raw material. The Korean fabricators at the time of bid of the Columbia Center, enjoyed a world price for the procurement of wide flange shapes of approximately 12½ cents per pound. Domestic fabricators were required to pay the same foreign steel mill 24 cents per pound for the same steel. The reason in the disparity of prices of exactly the same products from exactly the same sources was the anti-dumping tariffs that prohibit the offshore supplier to sell steel to the domestic fabricator at world market prices.

Since the cost of raw material makes up approximately 50%-70% of the selling price of fabricated structural steel products, the difference between the costs of raw material to the offshore fabricator vs. the costs to the domestic fabricator has a significant impact on the total selling price of fabricated products by domestic fabricators. In the case-in-point, the Korean fabricators enjoyed an almost 50% discount in the cost of the raw material on this product. No remotely foreseeable increases in productivity or technological improvement by domestic fabricators could reasonably be expected to overcome the competitive advantage the offshore fabricator enjoys by being able to buy at the world market price for steel. In addition to the protective tariffs currently enforced on the import of raw steel products, the Korean fabricator also enjoyed a much lower cost of labor. Current data indicates the Korean fabricator pays approximately $2.40 per manhour as opposed to the $24.00 per manhour for domestic fabricators.

Although domestic fabrication labor is approximately ten times as expensive as the Korean fabricator's labor, American technological ingenuity has closed the labor cost gap, as evidenced by the pricing of the Columbia Center, to only a 25% disparity in labor costs. Had the Korean fabricator been required to pay the same price for the same products from the same mill as the domestic fabricator, domestic fabricators would have been "roughly in the ballpark" in obtaining an award of ths major structural steel contract. Conversely, had the domestic facbricators enjoyed the opportunity to buy steel at the world market, the domestic fabricator would still have been "roughly in the ballpark" for the bid of fabricated steel products in the Columbia Center.

PSNFA feels strongly that the capability of domestic fabrications to improve their productivity and still maintain an American standard of living of its craftsmen is within near term grasp of the industry. However, the competitive disadvantage in raw material procurement is a hurdle that is well beyond the reach of any technological improvements in this industry and will shortly eliminate the capacity of domestic fabricators to maintain business operations. In addition to the loss of employment in the Seattle area due to the fabrication being done offshore, it is clearly evident that the protective tariffs currently in force did not assist domestic steel mills in obtaining the order for the raw material in the Columbia Center. Actually, the protective tariffs were conveniently avoided by the importation of the finished fabricated product rather than the raw material. In short, the tariffs imposed on raw material did not assist domestic steel mills nor domestic fabricators. Since the tariff itself does not run upwards through the construction cycle to include the finished product, neither domestic mills or fabricators gained the intended protection. PSNFA strongly suggests that the Committee should address the expansion of the anti-dumping "trigger price" to include finished fabricated structural steel products equal to the difference between the "trigger price" and the world price of steel.

B. As with all issues, other mechanisms affect a clear black or white analysis of the impact of foreign imported fabricated products. However, PNSFA submits to the Committee that employment data available from trade unions that supply labor to both fabrication plants and erection contractors will demonstrate a significant change in the ratio of field personnel to shop personnel. The impact of a sluggish and curtailed structural steel economy, high interest rates and other regional factors have depressed shop labor. However, despite a small recovery, shop manhours continue to decline. Preliminary information given to PNSFA shows that shop craftsmen's employment has declined more rapidly than overall construction labor. Therefore, PNSFA concludes that imported fabricated structual steel products has beome a significant factor in the unemployment of domestic workers.

In addition to the above decrease in employment in structural steel fabrication shops, PSNFA also submits that employment of direct labor in domestic steel mills has also been adversely affected by the ability of offshore mills to supply products to offshore fabricators and thereby avoid anti-dumping restrictions. PNSFA can only submit an inference of this decline in employment in steel mill workers and requests the Committee to further question those sources be more closely attuned to the steel producers industry.

C. A preliminary survey taken at a random basis of steel fabrication companies in the Pacific Northwest has produced the following financial unemployment figures for consideration:

	Annual sales volume (millions)	Profit/loss (millions)	Net worth (millions)	Employment (average peak craftsman)
1980	$355.2	$14.4	$88.8	3,896
1981	$337.5	$4.0	$93.6	3,976
1982	$342.4		$76.0	3,864
1983	$232.8	($1.6)	$64.8	2,208
1984 (estimate)	$272.0		$64.0	2,016
Increase/(decrease) percentage	(34)	(100)	(16)	(49)

Note—The survey is a random sample of 74 questionnaires sent out to the structural steel fabrication industry in the Pacific Northwest. Due to the timeliness requirements of this preliminary report the 1st 8 companies responding were used to compile data. It is conservatively estimated that these 8 responses represent 14 percent of the total survey. All compiled figures of the random sample were multiplied by a factor of 8. Average years in business of the random sample equals 43 years per fabricator.

These preliminary figures indicate that despite the recent recovery in the economy and the increase in construction, the percentage share of the fabrication market for domestic fabricators is continuing to decline rather than increase. Furthermore, an erosion of the necessary capital base to provide structural steel fabrication capability in the domestic area is continuing to erode due to competitive pressures from offshore fabricators. It is also evident that increase in sales volume are not correspondingly being reflected in increases of employment levels due to substantial progress being made in the increased productivity of direct craft labor in structural steel fabrication industry.

D. In addition to the presentation to the Committee of alarming facts and figures, PNSFA also proposes to the Committee some short term and long term suggestions in a more positive vein in the hopes that solutions, as well as problems, can be identified in the analysis process. PNSFA suggests:

(1) A determination of the necessary domestic structural steel fabrication capability to maintain national defense include certain requirements to maintain domestic infrastructure. In this vein, the requirements of structural steel fabricated products for the oil, gas, and coal production industry; electrical generation industry (including nuclear, fossil fuel, and hydroelectric); maintenance of highway bridges; municiple, state, and government facilities; facility requirements of heavy industry required for national defense and other necessary infrastructural requirements to maintain defense independence from imported products be included as necessary for the national defense.

(2) A temporary tariff be imposed to allow some capital recovery by the domestic steel fabrication industry be imposed on finished fabricated products imported from offshore. PNSFA suggests that this tariff be pegged to the difference between the world price of steel and the trigger price. It is of interest to note that the world price of steel has risen dramatically since attention has been focused in the congress on the issue of dumping. Since the world price of steel is somewhat politically controlled, a tariff that "floats" along with the trigger price would be an appropriate method to avoid fluctuation disparities that are out of the control of domestic resources.

(3) PNSFA, being on the Pacific Rim and the most easily accessible market place of imported structural steel products from offshore, suggests that regional import quotas, as well as national import quotas, be addressed by the Committee in order to maintain capacity in critical and selected regions of the domestic market. For example, prior to 1982 the Pacific Northwest was a primary source of structural steel fab-

ricated products to the State of Alaska. It is conservatively estimated that in another two years the vast majority of steel fabricated products destined for the State of Alaska will be imported from Pacific Rim countries other than the lower 48 fabricators.

(4) It is suggested that subsidiary and collateral members of the metal working industry be surveyed for additional data and examples of additional impact in order for the Committee to determine the full range of the influence of imported metal products from offshore. As a suggestion and certainly not as a complete list PNSFA suggests that the Committee requests input from the appropriate organizations that would have data on the following industries:

a. Structural steel engineering and detailing service companies;

b. Fabrication and welding equipment's supply and manufacturing organizations;

c. Sandblasting, heat treating, stress relieving, and other subsidiary metal working industry associations;

d. Finished machine job shop organizations;

e. Trade unions including, but not limited to, the Iron Workers, Sheetmetal Workers, the Machinists and Aerospace Workers, and other craft unions involved in metal working;

f. Fabrication companies involved in subassembly or manufacture of equipment or other proprietary products that are not necessarily oriented to the building trades or construction markets;

g. National steel fabrication companies not necessarily associated with regional trade organizations that would have more complete data of the overall impact on the entire United States market on structural steel fabrication products. Such companies include, but are not limited to, Chicago Bridge & Iron Corp., Pittsburgh-Des Moines Corp., Dravo Corp., American Bridge Division of U.S. Steel, Herrick Steel Co., and other large national fabrication companies.

PNSFA hopes the preliminary and brief data presented above will assist the Committee in their current analysis of foreign trade impact on the United States domestic capabilities. We would appreciation being advised from time to time of the progress that the Committee is making in its analysis and will be glad to supply more complete and detailed figures to whomever you should so designate. In the interim, please accept our profound appreciation of your efforts to investigate and act upon the current dilemmas that are destroying our industry.

Sincerely yours,

GALEN NORQUIST,
President.

STATEMENT OF WILLIAM J. PENDLETON, CHAIRMAN, STAINLESS STEEL WIRE INDUSTRY OF THE UNITED STATES

Mr. Chairman and Members of the Subcommittee, my name is William J. Pendleton. I am Director of Corporate Affairs for Carpenter Technology Corporation and Chairman of the Stainless Steel Wire Industry of the United States. I am appearing before the Subcommittee today on behalf of the Stainless Steel Wire Industry of the United States, which is a trade association consisting of domestic manufacturers of stainless steel wire.

I was pleased to have the opportunity to appear before you on March 17, 1983, to present our views on changes in the trade laws. This subcommittee, and the House Ways and Means Committee, have been hard at work recently in proposing improvements to our trade laws. We are deeply appreciative of your efforts, Mr. Chairman, and those of the Members of the Committee. On the whole, we are supportive of the amendments you have drafted. However, because the Stainless Steel Wire Industry is perhaps the classic example of an industry severely impacted by downstream dumping, we regret that those provisions of your bill were deleted. I will have more to say about this shortly, but first let me speak to the current state of our industry. We also strongly recommend that the final legislation contain a downstream dumping provision. The Stainless Steel Wire Industry is perhaps the classic example of an industry severely impacted by downstream dumping. I will have more to say about this in a few minutes, but first let me speak to the currrent state of our industry.

Our industry is technically and cost competitive and serves a wide variety of markets, including high technology markets. The domestic stainless wire producers have continued to increase productivity, introduce technological innovation and expand where possible. We are competitive, but, nonetheless, we have been severely hurt by unfair imports.

Over the years, we have pursued a broad range of remedies for the injury this industry has suffered as a result of the unfair trading practices of our foreign competitors. In 1975 we sought escape clause relief under section 201, but the causation standard used by the International Trade Commission to establish "serious injury" is so high that, in the eyes of the Commission, even the severe injury we were suffering at the time was insufficient to justify relief. I should add that the required standard of injury under section 201 is substantially tougher than is required under the escape clause provisions of the General Agreements on Tariffs and Trade. We continue to recommend that our section 201 causation standard be reduced to match that sanctioned by the GATT.

Unfortunately, the loss of the section 201 case in 1976 encouraged foreign stainless steel wire producers to flood our market through the use of unfair, predatory trade practices. This resulted in the establishment of historically high import penetration levels. This puts us at a substantial disadvantage, because future cases must now be measured against the "increasing imports" test. That is, imports have remained at a high level for a long period, primarily because of unfair trade practices. In order to win a section 201 case, however, we must now show "increasing imports." Import penetration of small diameter stainless wire, for example, is currently over 30% of the U.S. market.

Now I would like to update you on the continuing saga of trigger prices for stainless steel wire products. Many people are surprised to learn that the Trigger Price Mechanism (TPM) still exists. Yes, it does, but only for stainless steel wire products.

Our story began in 1978 when we filed an antidumping case against imports of stainless steel round wire from Japan. The U.S. International Trade Commission found that there was a reasonable indication of injury by reason of imports from Japan. However, at the request of the Treasury Department, which, then administered the antidumping and countervailing duty laws, we withdrew the antidumping petition in return for coverage of stainless steel wire under the TPM.

Our experience under the TPM has been one of ups and downs. There have been some temporary declines in import penetration although imports have remained unreasonably high in the smaller diameter range. We have continuously, and unsuccessfully, attempted to have some of the structural inadequacies of the TPM corrected by the government. We have watched trigger prices slowly but surely decline quarter by quarter, while actual costs of producing stainless steel wire here and abroad have steadily increased. This, we simply do not understand.

Over the past year, Japan accounted for virtually all of the increase in imports of stainless fine wire. Japanese shipments of fine wire to the U.S. increased 77% in 1983 over 1982. Overall stainless wire imports from Japan increased about 30%. We question whether this surge is more than just coincidental with the fact that Japan also supplies the cost figures from which the Department of Commerce computes the trigger prices. Our analyses would indicate that trigger prices may have been manipulated to lower the levels on the most desirable specific types of wire. Although the Trigger Price Mechanism has been somewhat helpful to certain types of products within the industry, it has clearly not been effective in stopping unfair trade practices for all types of stainless wire.

From our experience, foreign products have either generally ignore the Trigger Price Mechanism and sold their products at dumped prices, or found ingenious ways of evading the monitoring program. Our industry has previously testified to the Congress concerning the use of illegal schemes involving false invoicing and kickbacks. In addition, the Trigger Price Mechanism has been circumvented by the use of $10,000 loophole. Under the regulations, no Special Steel Summary Invoice (SSSI) is required on imports of steel products if the shipment is less than $10,000 in value. Stainless wire is frequently sold in smaller quantities due to the specialized nature of the product. We know that foreign producers have been taking unfair advantage of this loophole.

I would now like to say a few additional words on our downstream dumping problem. Stainless steel wire is just one step removed from basic stainless steel mill products. Wire is drawn from rod, and as you know, stainless steel rod is now subject to import quotas under the specialty steel section 201 import relief program. We feel that foreign stainless producers are circumventing the import quotas on stainless rod by shipping the downstream product, strainless wire. It is relatively easy for the foreign rod producers to move "downstream" to the next manufacturing step and drawn the rod into a stainless wire product. Another approach is to shift the sale of dumped rod to wire producers in another country, which in turn can produce and ship stainless wire into this country at unfair prices because of the advantage of dumped rod costs. A specific example of the latter involves Type 430 stainless lashing wire imports that are coming in from Canada.

The combined impact of low trigger prices, particularly on fine wire sizes, and the downstream circumvention of the stainless rod quotas is hurting our industry. For that reason, on October 17, 1983, we petitioned the United States Trade Representative to request the International Trade Commission to initiate a section 332 study of stainless steel wire imports. We believe that the latest surge of low-priced strainless steel wire imports is just beginning, and that a section 332 investigation will reveal the extent of "downstreaming" by foreign stainless producers.

Unfortunately, USTR has not acted on our request. We hope that this Subcommittee will understand and sympathize with our plight and that you will request a section 332 investigation by the ITC.

Mr. Chairman, we cannot afford financially to file a broad series of cases against imports, as the carbon steel industry has done. We have been frustrated in our attempts to make the Trigger Price Mechanism effective. We know that imports of stainless steel wire are being dumped and subsidized. The recent ITC decision in the carbon steel 201 case that the carbon steel wire industry has been seriously injured by imports may mean more imports of stainless wire, increasing our vulnerability. Thus, we feel justified in our position in support of temporary import quotas. For that reason, we have joined with other segments of the steel industry in supporting H.R. 5081, the Fair Trade in Steel Act.

On behalf of our members, I want to express our appreciation for your deep interest in our industry and your efforts to help us deal with unfair trade practices.

STATEMENT OF ARTHUR J. SCHULTZ, JR., PRESIDENT, STEEL SHIPPING CONTAINER INSTITUTE

Mr. Chairman and Members of the Subcommittee, I am pleased to have the opportunity to comment on H.R. 5081. The Steel Shipping Container Institute is a nonprofit national trade association of new steel drum and pail manufacturers, representing about 90% of total U.S. production. This industry ensures that an adequate supply of appropriate types of drums is available for transporting both domestically and internationally a wide variety of basic products, including foods, chemicals, petroleum products, paints and solvents, and agricutural supplies. Our industry uses a substantial amount of steel in the production of its products and is concerned that the import relief recommended by H.R. 5081 will result in significantly higher steel prices that could range from 7% to 10%.

First of all the SSCI supports a policy that provides for a strong domestic steel industry because such a policy is critical to the national defense and the industrial base of the United States. Likewise, it acknowleges that there are many problems facing the steel industry that are well known and such problems must be solved. However, import retraints will not solve these problems but, indeed, will sharply drive up the price of steel, hurting indsutries that use steel and put the jobs of their workers at risk and encourage foreign governments to retaliate against American exports which would cost even more jobs. Furthermore, imports, as the Comptroller General of the U.S. put it, are a result, not a cause, of the U.S. Steel producers' problems.

The SSCI in general does not favor tariff or non-tariff trade barriers. They have been tried before and there is little evidence that these measures had any beneficial effect in modernizing the integrated mills of the steel industry or making them more competitive in the international market. Another major hazard in trade barriers is that manufacturers outside the U.S. use the less expensive steel available in the international market and then ship their products into the U.S. at a lower cost because of the higher steel prices in the U.S. As indicated by the Congressional Budget Office (CBO), quotas on steel imports would be probably cost jobs in steel-depressed industries while providing only a modest increase in steel employment. Lastly steel import quotas would cost U.S. consumers $7.7 billion and do little to help the domestic steel industry according to the CBO.

Another issue is the question, does the U.S. steel industry need the protection of a quota system against imported steel? The U.S. currently has a number of formal and informal agreements with the European Common Market, Japan, Mexico, Korea and South Africa which restrict steel imports from other countries to the U.S. There are also a number of existing statutes which were granted to the U.S. steelmakers at their request in order to obtain relief from foreign competition. Although there have been some improvements in and the modernization of many of the steel mills there still remains many areas of concern. The steel industry has been slow in eliminating its obsolete openhearth furnaces. Also U.S. steel labor costs continue to be high relative to other major steel producing countries, especially the

Third World. For the U.S. steel industry to attain higher levels of technical efficiency and lower unit costs of production on a par with other countries, in order to achieve international competitiveness, will require them to pursue an aggressive modernization plan. Why then should an industry which has benefitted from some form of trade restraint for most of the past 16 years and made only minimal progress in its modernization and competitiveness, be entitled to more protection? The government can do more for the industry by refusing import relief and thereby forcing necessary restrictions and modernization.

The import relief proposed by H.R. 5081 does not have specific provisions for contributions by the constituent groups that have the most to gain by an improved steel industry. These include shareholders, managers, workers, executives and creditors. Under H.R. 5081 the public is expected to fund the improvements to the steel industry while those who stand to gain the most are neither asked or expected to make specific contributions to the effort.

In summary, the SSCI is opposed to the provisions of H.R. 5081 for the following reasons:

1. That it is not in the national economic interest of the U.S. to provide quotas on steel imports.
2. According to the CBO if quotas are imposed, import prices would tend to rise significantly because import competition would be constrained. The limit on imports would also increase the demand for domestically produced steel, causing domestic prices to rise. As a result average steel prices in the U.S. market by 1989 would be 9% higher with quotas than without it.
3. Another significant factor to be considered if quotas are imposed would be the negative affects on output and employment in those industries that consume significant quantities of steel, particularly for those industries that have international competition. Current steel prices in the U.S. are about 20% above the world price, so they already represent a competitive disadvantage for many U.S. industries. Any increase in steel prices caused by the quotas would exacerbate this situation.
4. Finally the import quotas on steel imports as proposed by H.R. 5081 could involve retaliations by the European Common Market countries and other foreign governments which would clearly imply further offsets to any possible benefits that would accrue to the steel industry as a result of the proposed quotas.

It is recommended that the Congress consider alternate ways to assist the steel industry. These could include a tax credit program for modernizing existing buildings, equipment and facilities and/or for building new and modern steelmaking facilities. A government assistance program similar to the Chrysler Loan Guarantee Act is another alternative, which required in part, that Chrysler demonstrate through financing and operating plans that it had investment and product plans that could be financed with the resources made available through the loan guarantee program and enable the company to become financially viable without additional federal assistance. The government in this case required commitments by constituent groups, including shareholders, labor, executives, creditors and certain state and local governments.

SUPERIOR METAL PRODUCTS,
Lima, OH, August 10, 1984.

Chairman SAM GIBBONS,
Chairman of the Subcommittee on Trade, Committee on Ways and Means, House of Representatives, Longworth Building, Washington, DC.

DEAR CHAIRMAN GIBBONS: This letter contains Superior Metal Products, Inc.'s statement for the record regarding pending steel quota legislation, presently before your committee.

Superior Metal Products, Inc. is a manufacturer of decorative trim for the appliance industry. We operate seven (7) plants across the country employing approximately 500 people. Our product line requires a wide variety of raw materials, including aluminum extrusions, aluminum coil, stainless steel strip, and predominately, cold-rolled strip.

Superior is one of the largest manufacturers of chrome-plated steel bowls (which are located beneath the heating elements on electric ranges). For approximately the past 5 years we have found it necessary to purchase our raw material almost exclusively from Japanese firms. There are two very basic reasons for this. Primarily, this is because our products require a significantly better surface on the steel than we are able to obtain from any domestic source. Secondly, the imported material draws better in the tooling. Simply stated, we are able to provide our customers with the quality product they expect by using imported steel, but we are unable to provide the same quality by using domestic product.

Over the years, we have offered to work with the major domestic steel producers to evaluate the differences between their material and that which we import. We have been willing to provide facilities and manpower to assist the domestic producers in any way possible. Each time our offers have been declined, with the response that the materials are the same, so an evaluation is unnecessary!

A great deal of work has been done with Wheeling-Pittsburg Steel, U.S. Steel, Bethlehem Steel, and others to a lesser degree on an acceptable level of quality and consistancy. To date we have been unsuccessful. Moreover, Wheeling-Pittsburgh stopped production on this type of steel several years ago, and recently, U.S. steel has done the same. It must be understood that the material we import has not been less expensive than its domestic equivalent. For many years we have paid a premium to purchase the Japanese material. Additionally, we have experienced a wide variety of inconveniences, such as long lead times, shipping delays, sunken cargo ships, and dock strikes to name a few. To say the least, it is not easy to deal with a vendor located halfway around the world.

Superior Metal Products is strongly opposed to any imposition of quotas or tariffs on the importation of cold-rolled carbon strip steel. We strive to provide high quality products at reasonable prices and face competition from imported products ourselves. Consequently, any imposition of quotas or tariffs will cause us to become less competitive (i.e. we would produce a lower quality product at a higher price). Superior requests the Sub-Committee on Trade to reject this legislation because it is not in the best interest of many domestic manufacturers, such as ourselves.

Thank you for your time and consideration. If you have any questions, please feel free to call us.

Sincerely,

LEO J. HAWK,
Executive Vice President.

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June 26, 1984

COMMITTEE ON
RECEIVED
JUL 5 1984
WAYS AND MEANS

John J. Salmon, Esquire
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102
Longworth House Office Building
Washington, D.C. 20515

Re: Hearings on Problems of the
U.S. Steel Industry: Written Statement

Dear Mr. Salmon:

On behalf of the Taiwan Steel and Iron Industries Association (TSIIA), I am enclosing six copies of each of two TSIIA briefs submitted previously to the International Trade Commission in opposition to the §201 petition for import relief. I ask that these briefs, together with this letter, be incorporated in the record being developed by the Ways and Means Committee, Subcommittee on Trade, in regard to problems on the U.S. steel industry.

TSIIA's prehearing brief contains a description of Taiwan's steel industry, emphasizing that that industry has carefully limited its capacity to remain commensurate with home-market demand. Taiwan's integrated steel mill, China Steel Corporation (CSC), has a current capacity of 3.25 million metric tons, which is considerably less than Taiwan's consumption of 5.9 million metric tons in 1983. CSC's expansion project, intended for completion in 1988, will increase its capacity to 5.65 million metric tons, still commensurate with Taiwan's projected local demand.

The prehearing brief also provides some detail on Taiwan's purchase of steel-making equipment and technology from the United States. These figures show that the United States is a principal supplier to Taiwan's steel industry. However, TSIIA is concerned that protection of the U.S. steel market may increase the cost of U.S. equipment, forcing Taiwan to turn to other sources for its future purchases.

As a final principal point, TSIIA's brief emphasizes Taiwan's concern that the erection of protectionist barriers on steel in the United States will have seriously disruptive effects in world steel markets. While cognizant of the purposes of the escape clause, TSIIA nevertheless urges the International Trade Commission to consider the global ramifications of import relief as well as the detrimental effects of relief on downstream industries within the United States.

TSIIA's posthearing brief to the ITC disputes Bethlehem's assertion that it will reinvest profits derived from import relief in its steel-making facilities. TSIIA quotes from an interview with Bethlehem's chairman, published in the *Wall Street Journal*, in which Mr. Trautlein announced Bethlehem's intention to diversify out of steel. TSIIA argues that the domestic steel industry's propensity for major non-steel investments would be accelerated by import relief on steel and that it would be self-defeating for the government to provide further resources for such diversification by permitting the industry to derive monopoly profits from import relief.

TSIIA's posthearing brief also incorporates and discusses a recent *Scientific American* article on minimills. That article provides insight into the health and profitability of the minimill segment. It establishes that the minimills represent a genuine structural change in the industry. These mills continue to take market share from the integrated producers, and that shift in favor of minimills will accelerate as they move into the flat products that have been the historical preserve of integrated producers. TSIIA argues that import relief will not halt the trend away from integrated production and will impose tremendous costs on consumers with disproportionately small benefit to integrated producers.

I request that the attached briefs and this cover letter be incorporated in the record herein. If you desire further information, please do not hesitate to contact me.

Thank you.

Yours truly,

David Simon

David Simon
Counsel for Taiwan Steel and
Iron Industries Association

DS:gbr

BEFORE THE
UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

In the Matter of	:	
Carbon and Certain	:	Inv. No. TA-201-51
Alloy Steel Products	:	

PREHEARING BRIEF
OF
TAIWAN STEEL AND IRON INDUSTRIES ASSOCIATION

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May 3, 1984

PREHEARING BRIEF
OF
TAIWAN STEEL AND IRON INDUSTRIES ASSOCIATION

This prehearing brief in the matter of Carbon and Certain Alloy Steel Products, USITC Inv. No. TA-201-51, is submitted on behalf of the Taiwan Steel and Iron Industries Association (TSIIA), by its counsel, David Simon and Bregman, Abell and Kay, pursuant to the notice published at 49 FR 5838 (1984). TSIIA opposes the petition and submits that the Commission should issue a negative determination herein.

I. INTRODUCTION

In this prehearing brief, TSIIA argues that the domestic industry producing subject products does not satisfy the criteria of the escape clause provisions of the Tariff Act of 1930, as amended ("the Act"), and that the petition for relief should be denied.

TSIIA has an interest in this investigation because its members are actual or potential exporters of subject products to the United States.

Before addressing the merits of the petition, we present pertinent facts concerning Taiwan's steel industry.

II. TAIWAN'S STEEL INDUSTRY

Taiwan's steel industry is principally a supplier to the Taiwanese market. The central participant in Taiwan's steel industry is China Steel Corporation (CSC).

In toto, Taiwan has an annual capacity of 5.10 million metric tons of steel per year. Of this, 1.9 million metric tons of capacity are spread among some 200 mills, the vast majority of which melt scrap and produce simple mill products such as bars and small steel sections. These remelters typically have a capacity of a few thousand tons per year. About 30 of these 200 producers have arc furnaces and/or rolling mills and are somewhat more sophisticated than the remelters.

The remaining Taiwanese capacity is represented by CSC's annual capacity of 3.25 million metric tons per year. CSC is Taiwan's only integrated steel mill. It produces a full range of basic mill products including hot-rolled and cold-rolled sheet and coil, plate, wire rod, and bar and reinforcing bar. For all practical purposes, CSC is Taiwan's only exporter of steel mill products (excluding such first-tier downstream products as steel pipe).

CSC is a state-owned corporation managed with a minimum of government interference. The corporation's first chairman, Mr. Y.T. Chou, insisted on and received guarantees of governmental noninterference in management and personnel matters, and CSC continues under succeeding chairmen to function as an independent entity.

CSC's fundamental strategy is to replace imports in the local market in order to contribute to the development and industrialization of Taiwan. This strategy takes two forms: first, to supply those basic mill products required by the majority of downstream users; and, second, to broaden the range of sizes and specifications of products available. In CSC's fiscal year 1983 (ending June 30, 1983), 69% of the firm's tonnage was sold in the local market. Of its export sales, 53.8% went to Southeast Asia, 37.8% to Northeast Asia, 2.9% to the Middle East, and 3.0% went to other markets excluding the United States. Thus CSC has well-developed markets for its steel outside the U.S. market; less than 0.09% of its sales in FY 1983 were to the United States.

In fact, CSC's overall trade with the United States is distinctly favorable to the United States. In the years 1974 through 1983, CSC purchased over US$485 million in equipment and US$109 million in raw materials from U.S. suppliers; in 1983 alone, CSC purchased over US$24 million in equipment and raw materials from the United States. The principal engineering design for CSC's original facility was performed by a subsidiary of US Steel Corporation, which continues to be a principal supplier of services.

In addition to CSC's imports of American technology, equipment and raw materials, Taiwan's steel industry as a whole is a substantial importer of U.S. exports. In 1982, Taiwan imported scrap steel and ships for ship-breaking from the United States valued at over US$58 million; for 1983, these imports from the United States were valued at over US$98 million.

As a result of the provision of American know-how and equipment, coupled with CSC's rapid ascent along the learning curve, CSC is today an efficient integrated steel mill and a cornerstone for Taiwan's development process. In fiscal 1983, CSC produced 418 metric tons (MT) of crude steel per employee, as against 362 MT per employee for the previous year. CSC operated in 1983 at a yield of 88.2% for its phase-one output and 80.62% for its phase-two output; energy consumption was reduced from 6.21 million kcal/MT of crude steel in 1982 to 6.18 million kcal/MT in 1983; and 49 new grades of steel were introduced in 1983, including alloy products for higher-technology downstream users. In addition, CSC has begun a diversification program, providing technical assistance to local downstream users. Internationally, CSC contracted with the Amalgamated Steel Mill of Malaysia to train its personnel and is an advisor in the construction of a cold strip mill in Indonesia.

Thus CSC is leading Taiwan in its development as a newly industrialized country. CSC is widely recognized as the premier government-owned enterprise in Taiwan. The reasons cited for this leadership are CSC's independence of government control, its commitment to the local market, and its carefully planned expansion. See, e.g., "Taiwan: Measured Expansion," American Metal Market, page 7A, October 7, 1983; "Charge of the Bright Brigade," Far Eastern Economic Review, pages 49ff (April 30, 1982). As a result of CSC's careful planning, the company has been profitable in every year since its founding except FY 1983, when the local market succumbed to the international recession. For 1984, CSC is recovering from the recession, projecting a net profit in FY 1984 of over US$100 million.

Table 1 shows the increasing self-reliance of Taiwan's steel sector even as per capita steel consumption generally increased.

Table 1
Taiwan's Production, Consumption & Per Capita Consumption of Steel

	Twn Steel Prod'n (000 MT)	Twn Steel Consumption (000 MT)	Twn Steel Per Capita Consumption (Kg/person)
1977	1,995	3,992	237.5
1978	2,901	5,039	294.0
1979	3,449	5,298	303.1
1980	3,651	6,294	353.4
1981	3,395	5,570	307.1
1982	4,080	5,019	272.9
1983	5,346	5,850	316.2

Source: CSC data.

In 1982, CSC produced about 38% of Taiwan's total steel production. The completion of CSC's phase two expansion project gave CSC 64% of domestic production for 1983. CSC's next expansion plan calls for an increase in capacity to 5.65 million tons in approximately 1988. This is a reasonable capacity level given the level of local-market consumption, the return of the trend of increasing per capita steel consumption, and the declining overall capacity of small mills that has been evident since CSC's start-up. Moreover, this level of capacity is consonant with estimates of optimum integrated mill capacity reported by economists. See, e.g., Barnett & Schorsch, Steel: Upheaval In a Basic Industry at 163 (1983); Canto, Eastin & Laffer, "Failure of Protectionism: A Study of the Steel Industry," Columbia Journal of World Business, at 43 (Winter 1982).

In summary, Taiwan's steel industry is expected to become increasingly centralized by virtue of CSC's presence. CSC is a net importer of U.S. goods and services and, in view of its local-market orientation and its limited expansion plans, is likely to remain principally as a supplier to the local market.

The Taiwan Steel and Iron Industries Association has a strong commitment to an open and free world trading system. As a growth engine for a country that exports on the order of 50% of its GNP, and as an importer of virtually all its raw materials, TSIIA recognizes that both sides of the trade equation benefit from open trading.

In recognition of the maturation of its steel and other industries, the government of the Republic of China is embarking on a program to reduce import duties into Taiwan. For the steel sector, import duties, now at favored rates as high as 24% of cif value on basic mill products, are expected to decline to the 5% level within the next four to five years. During the staged duty-reduction process, duty rebates for exported steel products will also be phased down, moving to zero as the tariff decrease achieves full implementation.

Thus both Taiwan and TSIIA recognize that full participation in global markets requires not only responsible export practices but also the dismantling of import barriers and the withdrawal of home-market protection. This is a formidable challenge, but one that must be accepted by any industry that intends to participate fairly in world trade and to benefit its local customers, as well as its export customers, with the best available technology and the most efficiently produced products available.

Taiwan's steel mill exports to the United States, shown in Table 2, principally consist of downstream products, in particular, steel pipe. In 1983, pipe exports made up 47.5% of Taiwan's steel product exports to the United States; bar shapes under 3 inches made up 4.3%; and the remaining 48.2% was divided among a variety of mill products, downstream products not under investigation here, and other steel products. This export product mix reflects the decision of CSC to diversify its export markets and, more specifically, to exercise self-restraint with regard to the U.S. market.

Because Taiwan's exports have principally been of steel pipe, this brief focuses especially on that product and treats other products in less detail.

Table 2
IMPORTS OF IRON AND STEEL FROM TAIWAN

STEEL MILL PRODUCTS:	1979	1980	1981	1982	1983
Ingots, blooms, billets, slabs, etc...	-----	-----	821	-----	-----
Wire rods..........................	11605	708	-----	-----	560
Structural shapes-plain 3" & over.....	1484	878	897	373	1931
Sheet piling..........................	-----	-----	-----	-----	-----
Plates................................	2999	-----	27	223	23
Rail and track accessories............	-----	-----	-----	-----	30
Wheels and axles......................	3	-----	-----	26	28
Concrete reinforcing bars.............	1211	320	-----	1901	4071
Bar shapes under 3"...................	2414	1569	2747	2868	11934
Bars- hot rolled- carbon..............	94	67	232	1184	1029
Bars- hot rolled- alloy...............	-----	-----	-----	-----	-----
Bars- cold finished...................	82	15	10	509	446
Hollow drill steel....................	-----	-----	-----	-----	-----
Welded					
Standard pipe*........................	-----	-----	-----	87127	132204
Oil country goods.....................	-----	-----	-----	3383	287
Line pipe.............................	75326	69273	117725	5336	1478
Mechanical tubing.....................	-----	-----	-----	20	1
Pressure tubing.......................	-----	-----	-----	174	51
Other pipe and tubing.................	1479	3966	3557	10307	14576
Round and shaped wire.................	1549	1423	793	1033	1465
Flat wire.............................	1	-----	-----	-----	-----
Bale ties.............................	-----	-----	-----	21	-----
Galvanized wire fencing...............	-----	-----	-----	-----	-----
Wire nails............................	8633	4547	1011	1169	2818
Barbed wire...........................	-----	42	8	39	106
Black plate...........................	-----	-----	-----	-----	-----
Tin plate.............................	-----	-----	-----	-----	-----
Terne plate...........................	-----	-----	-----	-----	-----
Sheets- hot rolled....................	57	77	-----	-----	2495
Sheets- cold rolled...................	650	339	-----	112	819
Sheets- coated (incl. galvanized).....	928	2721	4101	400	773
Sheets-coated-alloy...................	-----	-----	-----	-----	23
Strip- hot rolled.....................	-----	4	84	548	-----
Strip- cold rolled....................	-----	-----	-----	-----	11
Strip- hot & cold rolled- alloy.......	-----	-----	-----	-----	-----
Sheets-other-electric coated..........	-----	-----	-----	-----	-----
Total Steel Mill Products...........	108515	85949	131192	117574	177161

Table 2 (Con't)

	1979	1980	1981	1982	1983
Carbon	108438	85567	131183	117411	176968
Alloy	10	382	-----	71	182
Stainless	67	-----	9	92	11
OTHER STEEL PRODUCTS					
Structural shapes fabricated	159	641	2902	281	277
Shapes- cold formed	-----	11	-----	-----	-----
Sashes and frames	2	-----	6	9	283
Fence or sign posts	-----	22	25	3	44
Wire- nonmetallic covered	47	47	5	75	164
Wire rope	1303	978	1735	1366	1310
Wire strand	440	848	875	369	255
Welded wire fabric	3	29	1	-----	40
Other nails and staples	482	198	234	391	458
Bales ties- strip	-----	-----	-----	-----	-----
Bolts, nuts and rivets	60005	52870	86797	75912	91253
Griding balls	21	-----	-----	-----	1
Blanks, nonrectangular flat rolled	-----	-----	1	-----	-----
Rigid conduit	32	1	10	22	60
Pipe and tube fittings	2050	2934	4561	5342	7069
Total Other Steel Products	64544	58579	97152	83770	100950
Total Steel Products	173059	144528	228344	201344	278111
IRON PRODUCTS & FERROALLOYS:					
Bar iron, iron slabs & blooms etc	-----	-----	-----	-----	10
Cast iron soil pipe and fittings	15	44	30	8	126
Other cast iron pipe and fittings	161	184	311	810	480
Malleable cast iron pipe fittings	3454	2722	3167	3976	4429
Castings and forgings	8420	4801	5696	5293	9183
Pig iron	1	-----	-----	2	-----
Spong iron	-----	-----	-----	-----	-----
Ferromanganese (manganese content)	-----	201	-----	-----	-----
Ferrosilicon (silicon content)	-----	-----	-----	-----	-----
Ferrochromium (chromium content)	-----	-----	-----	-----	-----
Other feroalloys	-----	201	-----	139	-----
Total Iron Products & Ferroalloys	12051	8153	9204	10228	14047
Grand Total	185110	152681	237548	211572	-----
Iron and steel scrap	19	-----	49	-----	88

*The first 5 pipe entries are not broken out separately before 1982.
Source: AISI

III. THE DOMESTIC INDUSTRY IS NOT EXPERIENCING SERIOUS INJURY OR THE THREAT THEREOF SUBSTANTIALLY CAUSED BY INCREASED IMPORTS

A. Introduction

Section 201 of the Tariff Act of 1930, as amended, authorizes the Commission to --

> determine whether an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing an article like or directly competitive with the imported article.

19 U.S.C. 2251(b)(1). Thus there are three elements to an escape clause action:

1. increased imports;
2. serious injury;
3. substantial cause.

"Substantial cause" is defined as "a cause which is important and not less than any other cause." 19 U.S.C. 2251(b)(4).

The purpose of escape clause relief is the facilitation of "orderly adjustment to import competition." 19 U.S.C. 2251 (a)(1). Thus import relief under the escape clause is not intended to establish long-term or permanent import relief. As Secretary of Commerce Malcolm Baldridge stated, the escape clause provisions "provide an essential safety valve that allows time to adjust to rapid and unforeseen competitive changes that are inevitable in an open and liberalizing international market system." Baldridge, "Free and Fair Trade Policies: The United States and World Trade," SAIS Review, Vol. 4, No. 1, page 179, 183 (1984).

In addition to making its findings as to the three elements listed above, the Commission is also directed to investigate and report on efforts made by firms and workers in the industry to compete more effectively with imports. 19 U.S.C. 2251(b)(5).

B. The Instant Action Is Precluded By Reason of the Pendency of Numerous Unfair Competition Actions

The escape clause is unique among U.S. trade laws in that it does not involve an allegation of unfair competition. Indeed, when the Commission finds unfair competition during the course of an investigation, it is directed to notify the Department of Commerce or other relevant agency so that the appropriate action may be commenced in lieu of escape clause relief. 19 U.S.C. 2251(b)(6). The legislative history contemplates that where dumping or subsidization is alleged or present, the preferred action is a remedial antidumping or countervailing duties case, not an escape clause action. The legislative history states, "Action under one of those provisions [i.e., dumping, CVD, etc.] when possible is to be preferred over action under this chapter [i.e., under the escape clause]." Trade Reform Act of 1973, Report of the Committee on Ways and Means, H. Rep. No. 93-571, 93d Cong., 1st Sess. (1973) at 47. The Senate report explains the reason for this preference for unfair competition relief over escape clause relief:

> Furthermore, the Commission would be required, whenever in the course of its investigation it has reason to believe that the increased imports are attributable in part to circumstances which come within the preview of the Antidumping Act, the countervailing duty statute (section 303 of the Tariff Act of 1930), the unfair import practices statute (section 337 of the Tariff Act of 1930), or other remedial provisions of law, to notify promptly the appropriate agency so that such action may be taken as is otherwise authorized by such provisions of law. Action under one of those provisions when appropriate is to be preferred over action under this chapter. This provision is designed to assure that the United States will not needlessly invoke the escape-clause (article XIX of the GATT) and will not become involved in granting compensatory concessions or inviting retaliation in situations where the appropriate remedy may be action under one or more U.S. laws against unfair competition for which no compensation or retaliation is in order.

Trade Act of 1974, Report of the Committee on Finance, S. Rep. No. 93-1298, 93d Cong., 2d Sess. (1974) at 122-123.

The large number of antidumping and countervailing duties actions on products involved in the instant investigation, either pending or concluded, precludes an affirmative finding herein. There have been over 75 such cases on subject steel products. See Petition, Exhibit 4. Moreover, the Chairman of petitioner Bethlehem Steel Corp., Donald H. Trautlein, has stated that:

> The major cause of the domestic industry's present problems is the large volume of dumped and subsidized imports being sold at unreasonably depressed prices by foreign, government-owned and subsidized producers in

> violation of our trade laws. Burdened by staggering debts and faced with worldwide recession and steel making over-capacity, these subsidized producers have targeted and are selling into the U.S. market at prices which have no relationship to their costs, resulting in a complete breakdown of the international market mechanism in steel.

Bethlehem Steel Corp., Annual Report, 1983, at 1 (emphasis added). Thus petitioner itself asserts that the cause of its alleged injury is not increased imports, but dumped and subsidized imports.

In view of petitioner's own assessment that unfairly traded imports -- and not imports *per se* -- are the principal cause of injury, the Commission should terminate this investigation and yield to the on-going dumping and CVD investigations and to the outstanding antidumping and CVD orders to provide the relief the domestic industry claims is needed.

C. Industry Definition

Section 201 defines the domestic industry as domestic producers of "an article like or directly competitive with the imported article." The legislative history provides guidance as to the terms "like or directly competitive":

> The words "like" and "directly competitive" ... are not to be regarded as synonymous or explanatory of each other, but rather to distinguish between "like" articles and articles which, although not "like," are nevertheless "directly competitive." In such context, "like" articles are those which are substantially identical in inherent or intrinsic characteristics (i.e., materials from which made, appearance, quality,

> texture, etc.), and "directly competitive" articles are those which, although not substantially identical in their inherent or intrinsic characteristics, are substantially equivalent for commercial purposes, that is, are adapted to the same uses and are essentially interchangeable therefor."

H.R. Rep. No. 93-571, *supra*, at 45; S. Rep. No. 93-1298, *supra*, at 122.

Under Section 201 the Commission in defining the domestic industry considers the production facilities as well as the employees of those facilities and the capital invested therein. *Stainless Steel and Alloy Tool Steel*, Inv. No. TA-201-48, USITC Pub. 1377 at 12 (1983). In determining the scope of the industry, the Commission analyzes the material of which the products consist, the interchangeability of production facilities and machinery, and the treatment of the articles in the marketplace. *Id*. at 12-16.

Based on the foregoing criteria, it is clear that steel pipe (the principal product of interest to TSIIA) constitutes a product separate and distinct from -- not like or directly competitive with -- the other products under investigation. The facilities for pipe production are distinct from those used for other steel products. While some integrated steel producers make steel pipe (e.g. Jones & Laughlin, Republic Steel and others), the industry is dominated by nonintegrated producers. These producers buy their raw material, hot-rolled coil, on the open market and form it into pipe in facilities dedicated to that purpose. In fact, American steel pipe producers (other than integrated producers) import much of the hot-rolled coil used in steel pipe production; they view the availability of competitively priced coil and careful purchasing of coil as one of the keys to profitable production of pipe. See Certain Welded Carbon Steel Pipes and Tubes from Korea and Taiwan, ITC Inv. Nos. 701-TA-131 and 132, transcript of preliminary injury investigation at 18-19, 21, 46 (May 16, 1983); transcript of final injury investigation at 54 (March 27, 1984).

In summary, the domestic producers of steel pipe constitute a separate industry herein. Their purchasing pattern differs from that of integrated steel producers, their production facilities are not interchangeable with those used for basic mill products, and their distribution network is distinct from that used for basic mill products.

D. The Economic Experience of the Steel Pipe Segment of the Domestic Industry Is Not Substantially Caused By Increased Imports

Imports of steel pipe increased irregularly between 1978 and 1981, then fell sharply in 1982 and 1983. See Table 3. Domestic shipments showed similar trends. Import penetration rose from 26.6% in 1978 to 51.1% in 1982, subsiding slightly to 46.9% in 1983. Id.

Table 3
Imports, Domestic Shipments and Import Penetration for Steel Pipe, 1978-83 (000 net tons)

	Imports	Domestic Shipments	Apparent Consumption	Import % of Consumption
1978	3046	8399	11445	26.6
1979	2920	8243	11163	26.2
1980	3777	9096	12872	29.3
1981	6569	10285	16854	39.0
1982	5250	5026	10276	51.1
1983	2861	3240	6101	46.9

Source: AISI Annual Statistical Reports, updated by AISI data for 1983.

Analysis of steel pipe consumption patterns establishes that increased imports are not the "substantial cause" of the decline in domestic industry shipments or concomitant negative indicia.

With respect to causation, the statute directs the Commission to consider "all economic factors which it considers relevant, including (but not limited to) ... an increase in imports (either actual or relative to domestic production) and a decline in the proportion of the domestic industry supplied by domestic producers." 19 U.S.C. 2251(b(2). However, the legislative history cautions that --

> "weighing" causes in a dynamic economy is not always possible. It is not intended that a mathematical test be applied by the Commission. The Commissioners will have to assure themselves that imports represent a substantial cause or threat of injury, and not just one of a multitude of equal causes or threats of injury.

S. Rep. No. 93-1298, supra, at 120-121.

While pipe imports have increased relative to domestic production, though not absolutely, it is clear that other causes have played a much more important role than imports in the economics of the pipe industry. Chief among these other causes is the steep decline in oil exploration, which caused a severe decline in shipments of oil country tubular goods (OCTG) in 1982 and 1983. Between 1978 and 1981, domestic OCTG shipments increased at a compound growth rate of 17% per year, from 2.65 million net tons in 1978 to 4.2 million net tons in 1981. In 1982 OCTG shipments fell by 58.5% to 1.8 million net tons relative to 1981, and in 1983 they further fell by 61.5% to 577 thousand tons. (Data from AISI Annual Statistical Reports, updated by 1983 AISI figures. Cognate statistics are not available for imports before 1982.) Between 1982 and 1983, OCTG imports fell by 74%, from 2.2 million net tons to 565 thousand net tons.

The decline in demand for OCTG was an important cause for the decline in domestic shipments of pipe, and one which was more important than imports. The 1983 Annual Report of LTV Corporation states (at 14):

> The *major negative factor* influencing 1983 results was inactivity in the market for oil country tubular goods, a product line which was highly profitable in 1981 and early 1982. *Depressed conditions in the drilling industry nearly eliminated demand* for seamless pipe, and the company's pipe mills operated at extremely low rates throughout the year. Imports also continued to be a factor, capturing almost 50 percent of what little demand existed for pipe and casing. [Emphasis added.]

Thus LTV's assessment was that the decline in demand was the overriding market factor, with imports a subsidiary factor.

Similarly, Armco perceived the fall in OCTG sales as driven by the fall in oil exploration:

> Sales of our oil field drilling and production equipment continued to drop precipitously from 1981's record-high levels. In 1983, the average number of active drilling rigs in the United States was 2,232 -- down from 3,105 in 1982 and 3,969 in 1981.
>
> Our sales fell 60% in 1983 as customers continued to reduce high levels of inventory of both drilling equipment and oil country tubular goods. Prices declined sharply because of this inventory liquidation and the low demand for new equipment.

ARMCO Annual Report 1983 at 22.

Jones & Laughlin reports similarly that decreased demand was the principal cause of the depression in their sales of tubular products:

> The decline in revenues from tubular products in 1982 from 1981 resulted from a sharp reduction in the demand for tubular products, increased penetration by imported products and a deterioration in the steel group's mix of higher priced, high strength tubular products. After the first quarter of 1982, the rate of tubular steel production and shipments declined sharply, primarily as a result of lower rates of drilling and the liquidation by customers of their levels of inventories. Excessively high levels of user and distributor inventory and decreased oil and gas drilling activity have continued to exist through 1983 and, as a result, rates of tubular steel production and shipments continue to be extremely depressed.

Jones & Laughlin Steel Inc. Form 10-K for the fiscal year ended December 31, 1983, at 7.

For Republic Steel Corp., the situation was similar. In 1981, pipe and tube made up 22.9% of the company's shipments by value; in 1983, that proportion fell to 9.1%. Republic Steel

Corp. Form 10-K for the fiscal year ending December 31, 1983, at 2. Similarly, the oil and gas market took 10.9% of Republic's shipments by tons in 1981, 6.5% in 1982, and only 2.8% in 1983. Id.

Thus the drastic decline in oil and gas drilling and exploration is a separate, identifiable cause of injury more important than imports in the pipe and tube segment of the steel industry. The steep fall in oil and gas drilling was the fundamental cause of high inventories, with the attendant price cutting. In addition, the lack of demand for OCTG caused producers to shift pipe production into products for which demand for less depressed than that of OCTG. This, in turn, caused a ripple effect through other parts of the pipe industry, exacerbated by the unusually deep recession.

In summary, increased imports relative to domestic share were not a "substantial cause" of the economic experience of the domestic industry. Rather, the role of imports was overshadowed by the precipitous decline in oil and gas drilling. For this reason the Commission should make a negative determination as to the steel pipe and tube sector of the domestic industry.

E. Comments on Substantial Cause as to the U.S. Steel Industry

While the bulk of Taiwan's exports have been in the pipe sector, TSIIA would comment briefly on factors affecting the U.S. steel industry as a whole.

The history of the American steel industry's efforts to be competitive is well documented. See Crandall, The U.S. Steel Industry in Recurrent Crisis (1981); Borrus, "The Politics of Competitive Erosion in the U.S. Steel Industry," in Zysman and Tyson (eds.), American Industry in International Competition (1983); Barnett and Schorsch, Steel: Upheaval in a Basic Industry (1983). These economists are in agreement that the U.S. steel industry has historically not received lasting benefits from import relief -- not because the protection was ineffective, but because the problems of the industry are not substantially caused by imports or cured by a decline in imports *per se*. The fact is that the domestic steel industry, as Barnett and Schorsch establish, is now seeing the effects of fundamental decisions made decades ago with respect to scale of production, labor relations and installation of new technology. The role of imports in the U.S. steel market is the *result* of these domestic decisions. Those segments of the domestic industry that are intrinsically competitive, for example, the minimill segment, have held their own against imports. The integrated sector of the U.S. industry, meanwhile, is now in the process of rationalizing facilities, as witnessed by the Republic-LTV merger, and of investing in the technology needed to regain competitiveness. At the same time, the integrated sector is also diversifying so as to lessen its linkage to the cyclicality of the overall economy.

These changes are occurring today. There is no evidence that import relief would accelerate the pace of those changes. To the contrary, economists agree that the real effect of import relief is more on the exporting industries than on the domestic industry: insulated, the domestic industry has less incentive to adjust to import competition, while the exporting countries have an economic incentive to lower costs on affected products even further and to move into the higher-value-added products that can permit exporters to maintain profitability even under a regime of trade restriction. As Tyson and Zysman state, "OMAs [or other equivalent import restriction] simply transfer the adjustment problem to foreign competitors. Once these competitors have made the necessary adjustments, they pose even more dangerous threats to domestic industry." Tyson and Zysman, in American Industry in International Competition at 53.

The evidence suggests that the American steel industry is adjusting to import competition. The adjustment is not painless and it proceeds somewhat irregularly as it is affected by cyclical macroeconomic effects over which the producers have limited control at best. But the evidence is plain that adjustment is occurring and that the industry is moving to reorient itself after the strategic errors of the 1950s and 1960s. This adjustment will continue without import relief, and there is no evidence that a massive restriction of imports will accelerate these changes.

IV. CONCLUSIONS

The Taiwan Steel and Iron Industries Association opposes the petition for import relief herein.

As the facts presented on Taiwan's industry demonstrate, Taiwan's steel trade with the United States has been of modest proportions. China Steel Corporation, Taiwan's only integrated steel mill, has exercised considerable restraint in the U.S. market, concentrating instead on its home market and on other export markets. The scale of CSC's facility is consonant with projected local-market demand, and neither CSC nor Taiwan's steel industry as a whole poses a threat of injury to the U.S. steel industry.

Regarding Taiwan's principal steel export product for the U.S. market, namely, welded carbon steel pipe, the evidence is indisputable that neither imports from Taiwan nor imports *in toto* have been a substantial cause of serious injury to the cognate domestic industry. Rather, the economic difficulties of the U.S. pipe industry have, by the U.S. industry's own analysis, been caused by the sharp decline in demand for oil country tubular goods.

Finally, regarding the U.S. carbon steel industry as a whole, it is clear that a massive restructuring has been occurring. The advent of the minimill has been a principal cause of that restructuring. This is the result of structural economics enjoyed by minimills versus integrated producers, which has led to technological advances in the minimill sector far outstripping those in the integrated sector, as Barnett and Schorsch demonstrate. As a result, the minimills have enjoyed greater prosperity than the integrated mills and have given fewer opportunities for import penetration.

The integrated sector of the domestic industry is today engaged in a massive restructuring. Outmoded facilities are being phased out; overlapping facilities are being consolidated, subject to the limitations of U.S. antitrust law; updated technology, including increased use of continuous casters and automated controls, is being installed; and the industry as a whole is diversifying its economic interests so as to loosen its cyclicality and broaden its economic base.

In this context it is clear that steel imports have been drawn into the U.S. marketplace by the U.S. industry's strategic decisions of previous decades. Today, the domestic industry is modernizing, not as a result of increased imports but simply because the inefficiencies of previous decades have become apparent in an increasingly internationalized environment.

The U.S. industry is adjusting to decreasing patterns of total steel consumption and increasing needs for efficiency. There is no evidence that import relief would hasten that process or ensure its success.

For these reasons, the Commission should make a negative determination herein.

Respectfully submitted,

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May 3, 1984

[pb/STL]

CERTIFICATE OF SERVICE

I hereby certify that the foregoing Prehearing Brief was served via first-class mail, postage prepaid, upon the parties listed in the Commission's Service List for Investigation No. TA-201-51, this 3rd day of May, 1984.

David Simon

David Simon

BEFORE THE
UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

In the Matter of	:	
Carbon and Certain	:	Inv. No. TA-201-51
Alloy Steel Products	:	

POSTHEARING BRIEF OF TAIWAN STEEL AND IRON INDUSTRIES ASSOCIATION

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May 18, 1984

BEFORE THE
UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

In the Matter of	:	
Carbon and Certain	:	Inv. No. TA-201-51
Alloy Steel Products	:	

POSTHEARING BRIEF
OF
TAIWAN STEEL AND IRON INDUSTRIES ASSOCIATION

This posthearing brief of the Taiwan Steel and Iron Industries Association (TSIIA) is submitted, by counsel, pursuant to the notice of investigation published at 49 FR 5838 (1984). TSIIA opposes the petition for import relief.

TSIIA will avoid overburdening the record with arguments of merely cumulative effect. However, several matters raised during the hearings must be addressed directly.

I. CONTRARY TO BETHLEHEM'S PRIOR ASSERTIONS, IT APPEARS LIKELY THAT BETHELHEM INTENDS TO DIVERSIFY OUTSIDE THE STEEL INDUSTRY

During the hearings and in its written submissions, Bethlehem has repeatedly referred to itself as "the nation's largest integrated, non-diversified producer" of carbon and alloy steel mill products. *See*, *e.g.*, *Petition* at i. The thrust of such assertions is presumably to emphasize Bethlehem's commitment to remaining non-diversified and hence to neutralize an argument that increased profits derived from the implementation of quotas might be used for diversification rather than modernization.

An article in the May 17, 1984, Wall Street Journal, at page 10 (Exhibit A hereto), casts serious doubts on Bethlehem's implication that it does not intend to diversify away from steel. Bethlehem's Chairman, Donald H. Trautlein, is reported to have said that Bethlehem might implement a diversification strategy within the next year.

Mr. Trautlein suggested that Bethlehem might seek a merger within the steel industry if import relief herein is not provided. Significantly, however, Mr. Trautlein did not say that diversification would only occur if import relief were denied. Clearly, therefore, Bethlehem is, at the very least, actively considering diversification even if import relief is granted.

Using the oligopoly rents derived from a limitation on imports to make non-steel acquisitions would run counter to the purposes of section 201 relief. Even assuming, arguendo, that the industry is entitled to relief (i.e., has satisfied the statutory criteria), the fact remains that it would be improper to provide import relief if it was reasonably believed the profits therefrom would not be invested in steel-industry improvements.

Section 201(a)(1) of the Trade Act of 1974 requires the petition to include "a statement describing the specific purposes for which import relief is being sought, which may include such objectives as facilitating the orderly transfer of resources to alternative uses and other means of adjustment to new competition." By letter to the Commission of April 9, 1984, the U.S. Trade Representative has asked for explicit ITC findings as to the purposes for which relief is sought.

A diversification program is obviously not the sort of purpose for which import relief may legitimately be sought. Bethlehem's acquisition of non-steel enterprises would not alleviate the secular downturn in industry employment, for example, nor would it constitute an adjustment to new competition. Certainly, it would not enhance Bethlehem's steel-making capabilities.

Bethlehem's diversification might indeed represent commercial wisdom. Nevertheless, American consumers should not be required, through inflationary steel prices, to provide the oligopoly profits to underwrite Bethlehem's expenditure of "hundreds of millions of dollars" (as Mr. Trautlein stated according to the Journal article) for non-steel acquisitions.

Mr. Trautlein suggests that the capital for these large expenditures will be generated internally. Bethlehem is reported to have "assembled a 15-member staff within its finance department to sell various raw materials and manufacturing operations." Id. Apparently, the funds from this reduction will help pay for diversification, although the company plans to finance the acquisitions mostly with stock. Id.

Bethlehem's diversification appears likely to occur. The company has established a financial staff to sell saleable operations; it has hired an outside consulting firm to devise a diversification strategy; it has identified the subsidiary through which diversification would be done, namely, Kusan Inc., which is Bethlehem's plastics and vinyl subsidiary; and it has even identified the severity of the recent recession as the reason for its failure to diversify during the past few years. Id. (By implication, if there had been no recession, or if the recession had been less severe, Bethlehem would already have lost its mantle as the self-styled "largest non-diversified steel producer." Apparently, the question is not whether Bethlehem will diversify, but when.)

In sum, Bethlehem is asking for a quota, at least in part, to give the firm a breathing space in which it can lessen its involvement in the steel industry. It is submitted that this is not a proper purpose for import relief. If diversification is the key to the industry's well-being, then Bethlehem has injured itself by failing earlier to diversify. If diversification is not the key to economic health, then it is not a proper purpose for granting relief.

II. FURTHER INFORMATION CONCERNING MINIMILLS

In several instances during the hearings, questions arose as to the vitality of the minimill sector of the U.S. steel industry relative to the integrated sector. A timely article in the May 1984 issue of Scientific American attests to the strength of the minimills and explains some of the reasons for that strength. Jack Robert Miller, "Steel Minimills," Scientific American, Vol. 250, No. 5, p. 33 (1984) (attached hereto as Exhibit B). Some of Miller's salient points are as follows.

In 1960, minimills had about 2 percent of the U.S. steel market; at the beginning of 1984, they accounted for between 15 and 18 percent of the market. Id. Total minimill capacity is about 14 million metric tons per year, compared to about 123 million metric tons for integrated mills. Id. Thus, the minimill sector has been expanding even while the integrated sector has been contracting.

Part of the reason for the expansion of minimill capacity lies in the low capital costs for such operations. In 1978 dollars, capital costs for minimills for 1980 were estimated at $154 to $320 per metric ton of annual capacity. Id. This is only one-fourth to one-fifth of capital costs for integrated mill capacity ($956 to $1,500 per annual ton). Id.

Another reason for the relative vitality of minimills is their exceptional productivity. Mr. Lynn Williams testified during the instant hearings that the American steel worker is the most productive in the world, producing at a rate of 6.9 manhours per ton in 1983 and 5.8 manhours per ton in 1984. Minimill productivity is nearly four times greater than integrated-mill productivity. Miller cites a productivity of 1.63 manhours per ton at the Raritan River Steel Co. minimill in Perth Amboy, New Jersey. Miller, supra, at p. 36; cf. the graphic chart in Miller, Attachment B, at p. 39, comparing minimill and integrated-mill production costs in the United States, West Germany, and Japan.

Minimills have a further advantage in regard to market proximity. Miller cites Raritan's Perth Amboy rod mill again as an example: nearly 25 percent of the total U.S. population and nearly 25 percent of the U.S. market for steel is within a four-hour driving-time radius of the Raritan mill. Hence distribution of Raritan's wire rod can be done quickly and efficiently by short trucking hauls. Id. at 36.

Minimills also benefit from a raw material advantage. Miller cites a cost advantage of about $100 per metric ton for the cost of scrap per metric ton of raw steel in minimills versus the cost of hot metal from the blast furnaces of the integrated mills. Id. The U.S. scrap inventory of some 620 million metric tons in 1982 is considered adequate to meet predicted demand for scrap for the next several decades. Id.

Minimills also enjoy an advantage in employment costs. Total employment costs per metric ton shipped range from $75 to $100 for minimills and from $195 to $295 for integrated plants. Id.

Finally, Miller cites a study by Bethlehem Steel Corp. for the proposition that minimills enjoy a distinct energy-cost advantage. The Bethlehem study found that 5.32 million B.T.U.'s are required per net ton of steel in an electric-arc (minimill) furnace, versus 15.08 million B.T.U.'s per net ton in a basic oxygen blast furnace (integrated mill). Id.

Because of the foregoing advantages, minimills have captured 90 percent of the U.S. market for light shapes, 73 percent of the market for concrete reinforcing bars, 55 percent of the wire rod market and 30 percent of the hot-rolled bar market for 1981. Id. at 38.

More threatening to the integrated mills, minimills are now aggressively moving into the production of pipe and tube, plate, tinplate, sheet, and strip. Id. Miller projects, "minimills will make their market penetration at the expense of imports and of the integrated producers." Id.

Miller's analysis indicates that the structural changes in the U.S. steel industry are more than a mere shrinkage and consolidation and are certainly not substantially caused by imports. Rather, the minimills appear to be the driving force behind much of the economic problems of the integrated mills. Minimills compete successfully against both integrated producers and imports, while their tonnage capacity is expanding and their product range is broadening. Miller projects that minimill capacity will increase to 22 million metric tons in 1985 and to 26.5 million in 1990, as against 14 million metric tons in 1984. Id. at 33, 39. Concomitantly, Miller projects that imports will decline to about 16.5 percent of the market by the end of 1985, with minimill products replacing imports. Id. at 38.

As a result of the foregoing analysis, it is clear that minimills are a cause more important than imports regarding the integrated producers' loss of the markets for light shapes, re-bars, wire rods and hot-rolled bars. These four products alone constitute well over 18 percent of total U.S. steel consumption. ITC Prehearing Report, Statistical Table 4 (note that the ITC domestic shipments and consumption tables understate domestic shipments because much of the minimill production is not reported to AISI, which is the source for the ITC data). So in nearly 20 percent of the U.S. market, imports have been substantially displaced by minimill products.

As minimills expand into pipe, sheet, strip, and plate, both the integrated share and the import share of those markets will decline. These declines are irreversible in view of the cost advantage of the minimills and the availability of scrap.

Thus it is clear that import relief would not help integrated producers in the medium and long term. Actions which encouraged production by integrated mills would only heighten the shock that will be felt when minimills expand to their maximum efficient size and product range.

This projected expansion of the minimills is doubtless one of the reasons that Bethlehem's plans to diversify are not contingent upon the outcome of the instant investigation. Even if quotas are granted, Bethlehem will continue to lose market share to minimills, and will therefore need to diversify out of the steel business.

For these reasons, the Commission should determine that imports are not a substantial cause of serious injury to the domestic steel industry.

III. RESPONSE TO QUESTIONS CONCERNING FOREIGN PRODUCERS

TSIIA here reponds to several questions posed to foreign producers.

Regarding import barriers, Taiwan has no restrictions on the importation of steel. Importers of steel mill products are required to apply for the same import license as are importers of any other products. These licenses are a means of exercising jurisdiction over currency flows, not merchandise flows. The sole barrier to steel imports is the tariff structure in Taiwan. However, as the witness for TSIIA testified, it is anticipated that Taiwan will lower its tariffs over the next several years, so even this barrier will vanish. Moreover, since Taiwan has a duty drawback system for exported goods made from imported materials, the tariff barrier is nonexistent in the large export-manufacturing sector of Taiwan's economy. Hence the current tariff levels provide substantially less than their apparent protection to the local industry.

Regarding environmental protection, Taiwan's integrated mill, China Steel Corporation (CSC), has a highly advanced antipollution program. Taiwan has strict regulations governing, _inter alia_, smoke emissions, dust content, sulfur dioxide, nitrogen oxide, and virtually every other noxious emission. CSC has strict controls on fuel burning, to reduce sulfur dioxides and nitrogen oxides. The company has installed bag-style dust collectors, electrostatic precipitators, wet scrubbers, and other emission controls in its raw materials handling system, blast furnace, sinter plant, basic oxygen furnace, limekiln, and hot strip mills as well as an automatic alarm system to monitor air pollutants in all work areas.

To combat water pollution, CSC has installed biochemical, industrial and cold strip mill waste water treatment systems. CSC has also installed equipment to reduce noise levels in work areas.

In short, CSC has a sophisticated set of environmental control systems covering air, water and noise pollution.

IV. CONCLUSIONS

The analysis presented to the Commission clearly establishes that increased imports are not a substantial cause of serious injury to the U.S. steel industry. In partial response to Commissioner Stern's request for an order-ranking of causes of injury, TSIIA submits that both the growth of minimills and the secular decline in steel intensity far overshadow imports as the cause of the economic posture of the integrated sector of the U.S. steel industry. In particular, the vibrancy of the minimill sector alone precludes relief, since the statute requires that an entire industry (and not merely a sector of an industry) be suffering serious injury as a prerequisite for relief.

For the foregoing reasons, the Commission should make a negative determination herein.

Respectfully submitted,

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May 18, 1984

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CERTIFICATE OF SERVICE

I hereby certify that the foregoing Posthearing Brief of Taiwan Steel and Iron Industries Association was served via first-class mail, postage prepaid, upon the parties listed in the Commission's service list for this investigation, this 18th day of May, 1984.

David Simon
David Simon

10 THE WALL STREET JOURNAL, Thursday, May 17, 1984

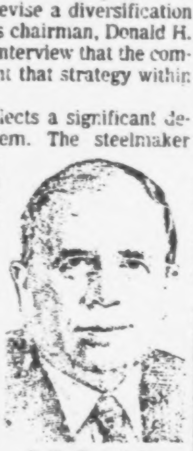
Bethlehem Sets Sights on Diversifying In Bid to End Heavy Dependence on Steel

By THOMAS F. O'BOYLE

Staff Reporter of THE WALL STREET JOURNAL

Bethlehem Steel Corp., a cautious spectator of the steel industry's recent diversification and merger activities, is inching toward the playing field.

The nation's second-largest steelmaker—soon to become No. 3 once LTV Corp. completes its merger with Republic Steel Corp.—has hired the consulting firm of McKinsey & Co. to devise a diversification strategy. Bethlehem's chairman, Donald H. Trautlein, said in an interview that the company might implement that strategy within the next year.



D.H. Trautlein

The disclosure reflects a significant departure for Bethlehem. The steelmaker flirted unsuccessfully with diversification more than a decade ago, but today Bethlehem is among the industry's most steel-dependent companies, along with Inland Steel Co. Steel and related fabricating operations accounted for 88% of Bethlehem's $4.9 billion in revenue last year. U.S. Steel Corp., by contrast, got 39% of its sales from steel and related mining and manufacturing operations, while petroleum and chemicals contributed 59%.

At the same time, the nine-man corporate policy committee assisting McKinsey also has been investigating various merger possibilities. Bethlehem hasn't talked to any prospective partners Mr. Trautlein said, and hasn't been approached. Nevertheless, he acknowledged that the company would "look a little bit closer" at its merger options if the industry fails to get steel import relief this year.

"We've concluded in general that our situation would not be enhanced by a likely merger at the cost we'd have to make it. But that could change," the chief executive said.

Some diversifications have taken Bethlehem's competitors far afield from steel, into financial services, insurance and petroleum. At Bethlehem, however, the broad aim is to find businesses that would be compatible with the company's existing operations.

For instance, Kusan Inc., a Bethlehem subsidiary acquired in 1970 and the only nonsteel-related operation it retained, could be used as a vehicle for diversification, Mr. Trautlein noted. Kusan, a maker of plastic toys and industrial parts as well as vinyl siding, currently has annual sales of $300 million, compared with $20 million in 1970.

A more divergent strategic course has been under review since Mr. Trautlein took over as chairman in 1980, company executives say. The severity of the recession prevented Bethlehem from moving forward with its plans, but it also has convinced company executives that such a strategy is imperative.

Bethlehem's recovery has lagged that of its competitors because of its heavy dependence on steel products such as beams and plates used in capital goods. The company is only now profitable after nine consecutive quarterly deficits, during which it rolled up net losses totaling $1.7 billion, including more than $1 billion in charges from closing its Lackawanna, N.Y., and other facilities.

Those losses limit the size of any acquisition that Bethlehem could comfortably digest. "It won't be a company that is anywhere near the size of a Marathon," Mr. Trautlein said, referring to U.S. Steel's $5.9 billion purchase of Marathon Oil Co. in 1982. He noted, however, that Bethlehem still could undertake one or a series of sizable acquisitions, perhaps in the hundreds of millions of dollars.

To help pay for such forays and otherwise bolster its balance sheet, Bethlehem has assembled a 15-member staff within its finance department to sell various raw materials and manufacturing operations. The company expects to raise $150 million this year and as much as $500 million over the next few years from various asset sales.

Even so, Mr. Trautlein anticipates that any acquisitions will be financed mostly with stock.

As for mergers, the chief executive indicated that antitrust clearance remains a big obstacle. But if quotas restricting foreign steel aren't imposed, domestic steel producers will continue to have a tough time dominating the market, increasing the likelihood that steel-company mergers would win more sympathetic antitrust reviews. Without the quotas, "you might look more closely at that (merger) as a possibility," Mr. Trautlein added.

He wouldn't rule out the possibility of both diversifying and merging: "They could both happen but I think diversification is more likely."

TSIIA
EXHIBIT A

Established 1845 SCIENTIFIC AMERICAN May 1984 Volume 250 Number 5

Steel Minimills

At a time in the U.S. when some large steel plants that start with iron ore are being shut down, smaller plants that start with scrap steel and market a limited line of products locally are doing well

by Jack Robert Miller

Since 1977 the 10 American companies that make up what is often called Big Steel have closed, idled, transferred or sold some 20 plants or parts of plants, shrinking their production capacity by about 10 million metric tons, or 8 percent, from 123 million metric tons per year. Another consequence was a reduction in the number of workers in the steel industry from 453,000 in 1979 to 247,000 at the end of 1982, a decline of 45 percent in three years. In 1982 the steel industry as a whole lost $3.2 billion, far more than it had in any previous year. The focus in Big Steel is on "restructuring," which has been described by David M. Roderick, the chairman of the U.S. Steel Corporation, as a "state of accelerating self-liquidation." More specifically, restructuring includes facilities closed, projects deferred or canceled, production consolidated and products added or dropped.

In contrast, the segment of the industry represented by what are called minimills has expanded and prospered since about 1960. In that year there were 10 or 12 minimills sharing about 2 percent of the American steel market; at the beginning of this year, 50 minimills accounted for between 15 and 18 percent of the market. Their total capacity (reckoned in terms of plants that can produce up to 800,000 metric tons per year) approximates 14 million metric tons per year. The focus among the operators of minimills is on the expansion of plants and markets and on enlarging the range of products.

The Big Steel companies tend to blame much of their trouble on a surge of imports of low-cost steel from other countries. Some observers believe Big Steel has contributed to its own problems by sluggishness in adopting new technology and by complacency in marketing. In a recent interview with *Financial Times* the president of a minimill company put the argument as follows: "The big companies kept their prices high and gave up markets when sales were booming. They are now stuck with old plants and facilities that were obsolete years ago. The only thing left for them is massive restructuring."

Although the advice is pertinent, Big Steel may rightly discount it for its source. Notwithstanding the fact that minimills have become more important and more visible in the steel industry since the late 1970's, they operate at the margins of the industry. They make low-end-of-the-market, low-value-added-by-manufacture light structural rods, bars and shapes for sale to the local construction market, competing in it with imported steel. Their raw material is mainly local steel scrap, which they melt in electric furnaces. Therefore except for the attention they pay to the adaptation of new technology to their operations they represent something less than a complete model for a national steel industry.

A steel industry capable of beginning with iron ore in the ground and ending with steel in a large variety of shapes and sizes requires a much greater investment per ton of capacity than a minimill does. Data on the capital costs were assembled by the Office of Technology Assessment of the U.S. Congress in 1980. In 1978 dollars the estimates range from $154 to $320 per metric ton of annual capacity for a minimill and from $956 to $1,500 for an integrated plant (so named because it is capable of conducting a series of operations beginning with iron ore and ending with steel in a number of usable shapes).

The first step for almost all integrated operations is mining the ore. The second is preparing the raw materials. Ore of lower grade than was commonly available before World War II must be beneficiated, that is, its content of iron must be increased to between 65 and 72 percent by the removal of waste materials such as sand, clay and metallic impurities. The concentrated ores are ground and mixed, and the mixture is formed and hardened into pellets from three-eighths to five-eighths of an inch in diameter. The concentrated fines may also be sintered, that is, fused into porous lumps that are then broken up into one- and two-inch pieces. Pellets ship well and sinter does not. A pelletizing plant is therefore often built near the mine, and the pellets are transported by rail or ship to the steel plant. A sintering plant, however, is usually a standard part of an integrated mill's iron department.

At the integrated plant the preparation of raw materials also includes the crushing of limestone and the charring of coal (in the absence of oxygen to prevent burning) to make coke. The limestone and the coke are sized: broken into lumps of convenient size.

The third step is ironmaking. The prepared ore, limestone and coke are mixed and charged into the top of a blast furnace while a hot blast of air is blown in at the bottom. The heated air burns the coke, which generates carbon monoxide that rises upward in the furnace shaft to meet the downward-moving ore. The hot gas melts and reduces the ore. The result is liquid pig iron.

In the fourth step the pig iron is transferred to and refined in a steelmaking furnace, usually a basic-oxygen furnace or an electric-arc furnace. In the refining phase unwanted elements are removed from the pig iron and precise adjustments are made in the amounts of want-

TSIIA Exhibit B

ed elements, particularly carbon, which is brought down to between 1.7 and .3 percent. From the furnace the molten "raw" steel is poured into a ladle and from the ladle into ingot or slab-ingot molds made of cast iron, where it solidifies into ingots or slab-shaped blocks of steel respectively weighing as much as 60 and 100 tons.

Except when the ingots or slabs are sent to a yard for surface treatment or for storage, they are taken (as soon as possible after they are stripped from the molds) to the rolling mill. There ingots are put into soaking pits and slabs into reheating furnaces, where they are heated to a uniform temperature. They are then passed into a breakdown mill (known as a roughing mill and also a bloomer or slabber) in which the ingots receive a preliminary shaping before they are put through a series of intermediate and finishing mill stands.

In the 1970's a few integrated mills installed continuous-casting machines that receive the molten steel direct from the ladle (eliminating the ingot and the soaking-pit or reheating-furnace stage) and deliver slabs, blooms or billets to the rolling mills. Continuous billet-casting has been standard practice in the minimills for about 15 years.

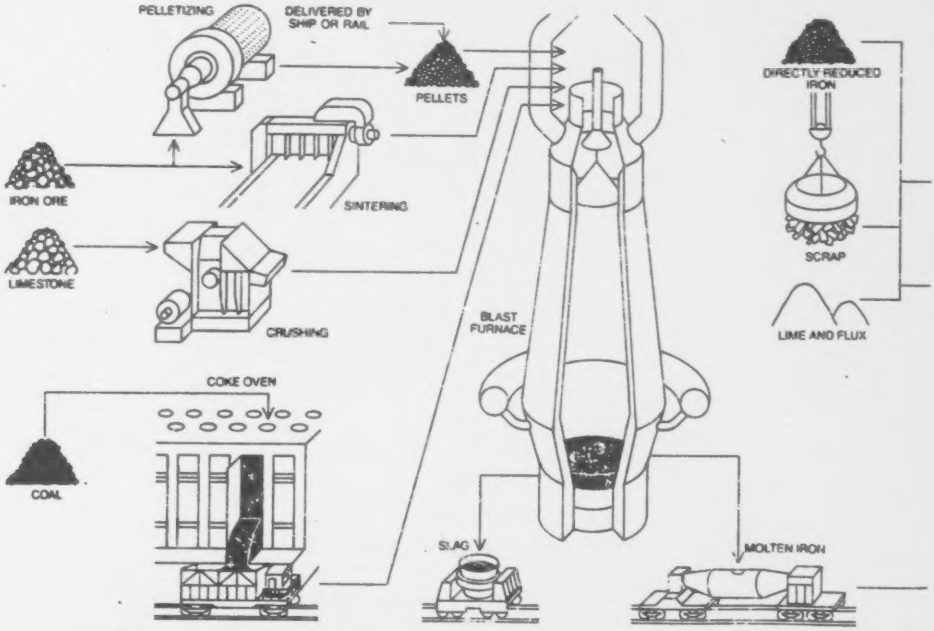
In the rolling mills slabs are rolled into plates for ships, for large industrial pressure and storage vessels and for large-diameter welded pipe; into wide sheet for automobile manufacture, and into narrower strip for smaller manufactured products and for tinplate and galvanized sheet. Larger blooms and billets are rolled into large-cross-section structural shapes; smaller billets are rolled into light structural shapes and concrete-reinforcing bar, into rods for drawing into wire and into tube rounds for making seamless tube.

The minimill gets its name not so much because it is small as because its operations encompass only part of the massive integrated steelmaking enterprise. To achieve the necessary economies of scale in reducing production costs integrated mills have been built to produce from three to 10 million metric ingot-tons per year. In the U.S. most minimills have a capacity of some 250,000 metric tons per year; a few of them turn out 600,000 tons or more. On the other hand, there is a 50,000-ton plant in Hawaii, and units with half that capacity are found in several countries outside the U.S.

The economics of the minimill have been described by Joseph C. Wyman, a steel-industry analyst with Shearson/American Express, Inc., who wrote (in 1981) that typically the minimill "has no investment in raw materials and transport facilities" and does not have to create an intermediate product such as pig iron. "It relies for its raw material on investment by others: scrap dealers and utility companies. It is also 'mini' in its product mix; it typically produces only a very limited range of shapes and sizes within a very narrow group of products."

Unencumbered by the large capital investment required for an integrated plant, the minimill is freer to put capital into new technology. By doing so the minimills have been able to recapture markets that Big Steel has abandoned to imports.

In a minimill the first step is to melt steel scrap in an electric furnace. The



CONVENTIONAL STEEL MILL is termed an integrated plant because it begins with iron ore and ends with finished or semifinished steel products. Mixtures of lump ore and pellets (and perhaps sinter), sized limestone and coke are charged together into a blast furnace to make pig iron. In the refining step the objective is to remove carbon from the iron to make steel, which has a carbon content of 1.7 percent or less. Pig iron, scrap, lime and fluxes are put into a steelmaking furnace (the two types depicted are an electric-arc furnace and a basic-molten steel goes to a continuous-casting machine, from which it emerges as a continuous billet or bloom. That is cut off at convenient lengths, which go to a rolling mill to be formed into the shapes making up the mill's limited line of products.

The furnace, continuous-casting machine and rolling mill might all be found in a large integrated plant; I describe them here as they function in a minimill. A modern electric furnace is a substantial installation. Its main part is a round vessel, from three to eight meters in diameter, lined with a refractory material. Three graphite electrodes enter through holes in a roof. The electrodes are connected to a transformer rated at from 130 to 700 kilovolt-amperes per metric ton of furnace charge. Under standards proposed by the International Iron and Steel Institute in 1982 a unit of 700 kilovolt-amperes is classified as an ultrahigh-power furnace. Heat for the system is provided by arcs struck between the electrodes and the pieces of metal scrap that constitute the charge of the vessel.

The roof and the electrode assembly can be moved off and away from the furnace. The open furnace can then be loaded with steel scrap delivered from a large steel charging bucket carried by an overhead crane. Pig iron and, more recently, directly reduced iron may be added to the metallic charge to dilute the effect of impurities in the scrap such as copper, lead, chromium and zinc.

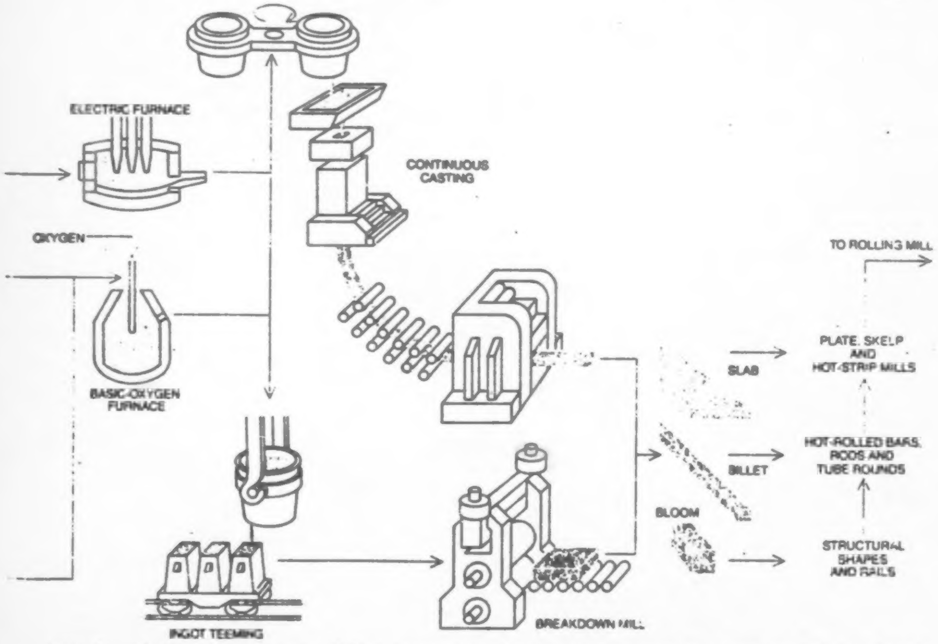
Oxygen may be employed to speed up the melting of the charge or to remove carbon from the molten bath of metal; if it is, it is usually injected into the furnace with a water-cooled lance inserted through a port. A modern furnace can refine a heat, or charge, of from 80 to 100 tons in a tap-to-tap time (the period between corresponding points of one cycle and the next) of from 100 to 180 minutes, which is equal to a rate of from 45 to 65 metric tons per hour. The consumption of electric energy by such a furnace is about 550 kilowatt-hours per metric ton.

At the end of a heat the roof and the electrode assembly are moved aside and the furnace is tilted to pour its charge into a ladle held and positioned by an overhead crane. The steel is now ready to be cast.

In the first minimills the casts were small ingots of billet size, which were sent directly to the reheating furnace of the rolling mill. After reheating they were pushed into the first rolling stand of the mill. A major modification introduced by minimills in 1962 was the replacement of billet-size ingot practice by continuous-casting machines.

In such a machine molten steel from a ladle is teemed into an elevated tundish, a structure that functions rather like a funnel. The tundish has an opening in the bottom through which the liquid steel flows into a water-cooled copper mold. The metal and the mold move downward together for about 25 millimeters as the skin of the strand of steel freezes. Then the mold is moved rapidly upward, breaking loose from the solidified skin of steel and returning to its starting position to grasp the strand of metal again.

The steel billet continues to move downward, passing through several sets of water-sprayed guides that gradually curve to a horizontal conveyor at floor



oxygen furnace), where carbon, manganese and silicon are removed or reduced to specified levels by controlled oxidation and where contaminants such as phosphorus and sulfur are also removed. The steel is cast into ingots, which are broken down into slabs, billets or blooms that then go to a rolling mill to be shaped into products. Large integrated steel mills are increasingly installing continuous slab-casting machines to replace the ingot-mold procedure. An integrated plant has more extensive operations and makes more steel than a minimill.

level. The continuous strand, now fully solidified, moves through a leveler that acts on it with flattening rolls. In some plants the strand is next cut into suitable lengths. A recently developed practice is to feed it directly and continuously into the reheating furnace of the rolling mill, and an even newer practice is to bypass the furnace.

The products made in the rolling section of a minimill are simple and limited in variety. They include wire rods, reinforcing rods (for concrete) and bar products in a variety of forms. Among the bar forms are flats, rounds and squares, the terms referring to cross-sectional shape. A minimill may also make other things: light I beams and T beams, angles (with a right-angle cross section) and channels (showing a shallow *U* in cross section). When the longest part of a shape seen in cross section is 75 millimeters or less, the product is a light section; when it is longer, the product is a heavy section. Bars made of carbon steel and rolled hot are known as merchant bars. When the melt is alloyed by the addition of small amounts of manganese, chromium, nickel or other elements singly or in combination, the product is an alloy steel. One such product made increasingly by minimills is described as SBQ grade (standing for special bar quality).

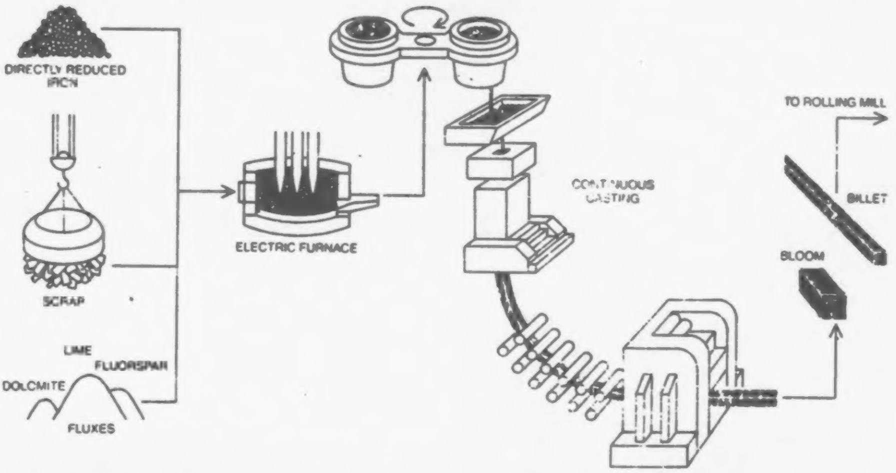
Bar and rod mills have been improved steadily over the past 10 years, largely because of their growing role in minimills. Dimensional controls have become more precise; the surface quality of the products has been improved, and such variables as the temperature of the steel and the pressure of the mill rolls have been made more responsive to control by computer. Moreover, mill speeds have been greatly increased. Finishing rates close to 100 meters per second (nearly 20,000 feet per minute) are now attainable in rolling rods 5.5 millimeters (.217 inch) in diameter. That is more than double the production pace of the rod mills of a decade ago.

A closer look at two minimill operations will show how minimills in general have paid attention to new technology, efficient operation, plant location and marketing. One is the Raritan River Steel Co. plant that began operations in March, 1980, on a tidewater site in Perth Amboy, N.J., some 20 miles from the Empire State Building in New York and 75 miles from Constitution Hall in Philadelphia. A truck moving at 55 miles per hour on the interstate highway system can connect the plant in less than four hours with customers in Boston, Worcester, Providence, Albany, Binghamton, Scranton, Harrisburg and much of the Baltimore-Washington area. Within that region are 55 million people, constituting nearly 25 percent of the U.S. population and nearly 25 percent of the market for steel. The plant makes rods only.

The plant's facilities are examples of recent technology applied to minimills. Its single electric furnace, six meters in diameter, can produce 135 metric tons of liquid steel from scrap. Heats from the furnace are teemed into a five-strand continuous caster designed to deliver billets 130 millimeters square in 16-meter lengths. The metal is stirred electromagnetically to yield carbon steel of high grade and uniform grain structure. A novel feature of the caster makes it possible to replace a section of mold in one strand without halting the operation of the other strands. The rolling mill may put the billets through as many as 25 passes in 25 roll stands to reduce and elongate them into rods from 5.5 to 12.7 millimeters in diameter.

The nominal capacity of the plant is about 550,000 metric tons of wire rod per year. The plant was built in 1978–79 at a cost of $110 million. The plant employs nonunion labor in an area where labor organizations have been powerful for many years. Considerable attention is given to the training of new workers. When the plant opened, an optimum productivity target of 1.36 man-hours per metric ton was established; by 1983 a rate of 1.63 man-hours per ton was being achieved routinely.

The second example consists of five minimills operated by the Florida Steel Corporation. One of them was the first steel plant ever built in Florida: a small plant erected in Tampa in 1958 to provide some 3,000 metric tons per month of reinforcing bars for the company's own steel-fabricating business. The bars



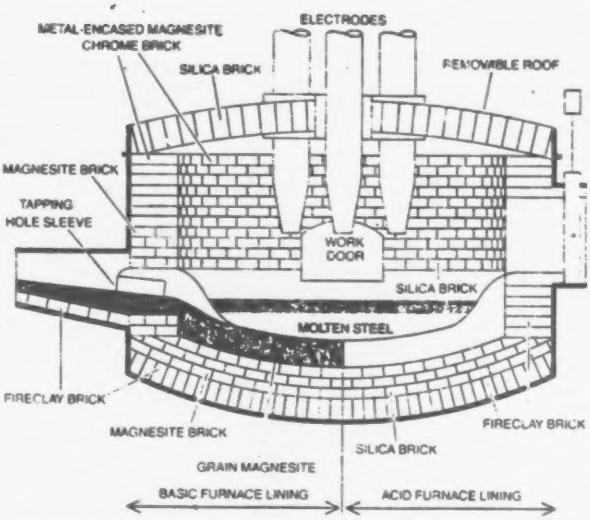
MINIMILL OPERATION dispenses with the ironmaking steps of the conventional steel plant and begins with steel scrap, flux and (occasionally) directly reduced iron. The scrap is melted in an electric furnace, poured into ladles and transferred to a continuous-casting machine. From the casting machine the steel emerges as a continuous billet or bloom that is cut off at suitable lengths and sent into the rolling mill, where usually only a few products are made. They include rods and bar and structural shapes for light construction. Over the past 10 years a few minimills have expanded their line of products to include such items as pipe, plate, narrow strip and narrow sheets.

soon found a large local market, and within a few years the company had become a steel producer first and a steel fabricator second. For 25 years Florida Steel prospered, expanding the Tampa plant eightfold and building four similar plants: at Charlotte, N.C., in 1961; at Indiantown, Fla., in 1970; near Jacksonville in 1975, and at Jackson, Tenn., in 1981. Costs at the Indiantown plant were higher than had been expected, and in 1982 it was closed. The bar-mill capacity at the four operating plants is 250,000 metric tons per year at Tampa and Charlotte, 320,000 at Jacksonville and 350,000 at Jackson.

The company had different reasons for expanding its capacity, and they illustrate three concepts of minimill operation. The mills at Tampa and Charlotte were built to take advantage of locally available markets and local sources of labor and scrap: this is the classic minimill concept. The purpose of the plants at Indiantown and Jacksonville was to meet a growing demand and to establish markets in nearby areas ahead of potential competitors: this is the neighborhood mill. It is still a minimill, but it seeks to establish itself in an area where the demand for steel can be expected to grow. The plant at Jackson was built to serve existing and expected demand for reinforcing bars and merchant bars with a mill that concentrates on specific products to meet a given market: this is the market-mill concept. Again it is still a minimill, but it is narrowly oriented toward one or two particular items.

The plant at Jackson incorporates an advanced type of continuous casting. It is called sequence casting or continuous-continuous casting. The electric furnace and the continuous-casting facilities are designed so that the time needed for making enough hot metal to fill a ladle is a little less than the time needed to pass the steel through the caster. Hence a series of ladles are teemed into the tundish in sequence and the casting procedure does not have to be stopped when a ladle is empty.

Since minimills depend on a supply of steel scrap, one must ask if the supply can be sustained in the face of the growing role of minimills in the steel industry. James W. Brown and Richard L. Reddy of the Electrode Systems Division of the Union Carbide Corporation looked into the matter a year ago and reported that the domestic supply of scrap appears to be "adequate to support domestic needs and future export levels." Hans Mueller of Middle Tennessee State University believes "the ubiquitous availability of scrap in this country" accounts for the establishment of electric-furnace minimills in the western and southern states, which "were shunned by the large steel companies." Tabulations by the Institute of Scrap Iron and Steel showed a scrap inventory in the U.S. of 620 million metric tons at the beginning of 1982. A backlog of that size, together with the annual additions to the inventory, should be sufficient to meet predictable demand for steel scrap for several decades.



ELECTRIC FURNACE is the central part of a minimill. It can be more than eight meters in diameter and can hold more than 150 metric tons of molten metal. Three graphite electrodes enter through separate holes in the roof. When power is turned on, intense heat is generated in the furnace. Electric arcs are struck from one electrode to pieces of the steel scrap that constitute the metallic charge of the furnace and then are struck from the charge to the next electrode. The charge is melted, forming a metallic bath covered with a layer of slag. The refractory lining differs for basic and acidic practice. In the more usual basic practice the chemical reactions (involving a "limy" slag, magnesite refractories and the hot metal) remove carbon, silicon, manganese, phosphorus and sulfur from the bath and yield molten steel. The roof-and-electrode assembly is moved aside and the furnace is tilted to pour the steel into ladles for casting.

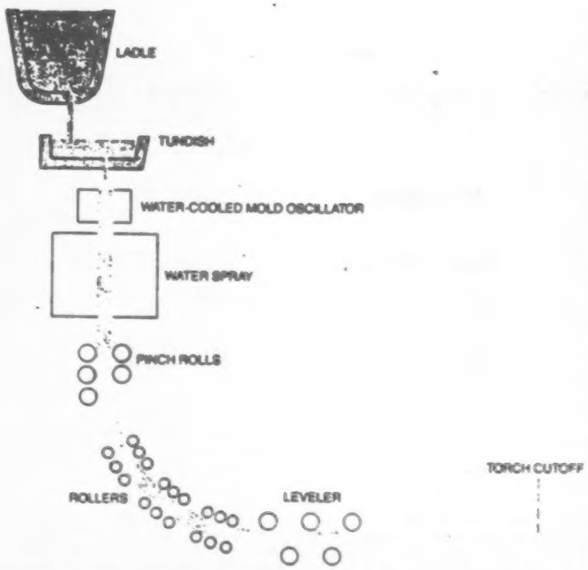
Scrap is a low-cost raw material compared with iron ore and pig iron. A study by Union Carbide last year comparing the cost of scrap per metric ton of raw steel in minimills with the cost of hot metal from blast furnaces in an integrated mill indicates a difference of approximately $100 in favor of the minimill.

The minimill also has advantages over the integrated mill in costs for labor and energy. The minimills are largely staffed by nonunion labor. Management practices have emphasized good relations with workers by means of profit-sharing plans, training courses, promotion programs and consultations with workers on decisions. Although the figures vary, it can be said as an approximation that the total employment cost per metric ton of steel product shipped ranges from $75 to $100 at minimills and from $195 to $295 at integrated plants.

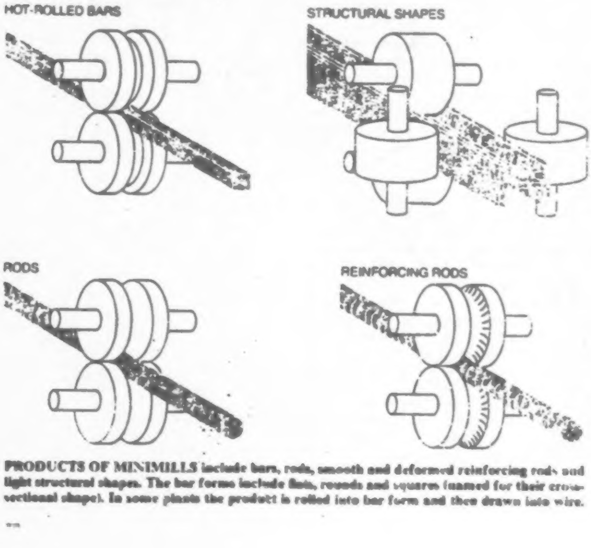
As for energy, Robert W. Bouman of the Bethlehem Steel Corporation has analyzed the requirements in British thermal units. He found that 5.32 million B.t.u.'s are consumed in making a net ton of steel in an all-scrap electric-arc furnace (the minimill situation) and 16.08 million at a blast-furnace, basic-oxygen operation in an integrated plant. "From an energy point of view," he wrote, "it is desirable to maximize the use of scrap to produce steel."

I turn now to some personal predictions of the course of the steel industry over the next seven years. They are based on my own long association with the industry and on recent discussions with a number of people in it. The forecast is mostly limited to the years from 1984 through 1990 because changes in the industry are coming too fast to justify estimates for a longer period. My projections are not precisely calculated forecasts but rather are informed judgments based on observed trends.

First, I expect that the apparent steel consumption in the U.S. will rise from 123 million metric tons in 1985 to 127 million in 1990. (Apparent steel consumption is production plus net international trade.) The projection is based on



CONTINUOUS CASTING is the standard method of casting in minimills. Molten steel delivered to the continuous-casting operation in a ladle by an overhead crane is poured into the tundish, which acts as a funnel, feeding the liquid into a water-cooled copper mold. The metal and the mold move downward for a short distance, allowing the skin of the steel to solidify. Then the oscillator breaks the mold loose and returns it to the starting position. The strand of steel continues downward through water-sprayed guides. Near the bottom the strand is rolled into a horizontal position. Sections are cut off and sent to the reheating furnace of the rolling mill. A newer practice is to send the strand directly from the casting machine to the rolling mill.



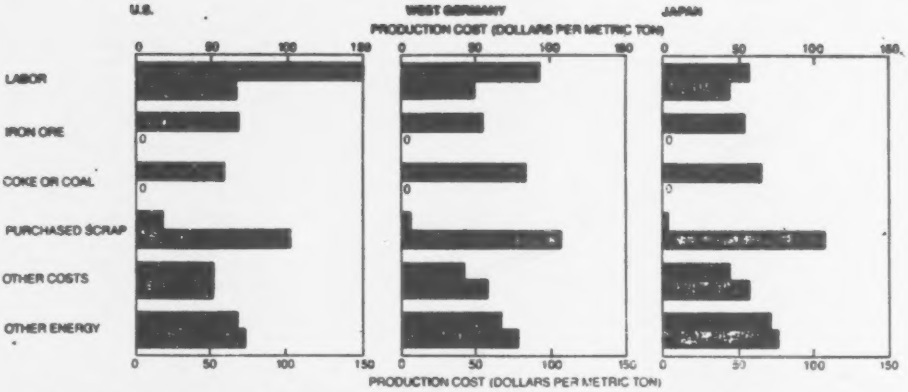
PRODUCTS OF MINIMILLS include bars, rods, smooth and deformed reinforcing rods and light structural shapes. The bar forms include flats, rounds and squares (named for their cross-sectional shape). In some plants the product is rolled into bar form and then drawn into wire.

an estimated annual growth rate of .62 percent, which would be quite modest. I also estimate that the level of imports, which in recent years has been from 19 to 22 percent of the domestic market, will decline to about 16.5 percent by 1985 and will remain there through 1990. Part of the decline in imports will result from increased activity by minimills. Having gained a large share of the market for their present line of products (90 percent of light shapes, 73 percent of concrete-reinforcing bars, 55 percent of wire rods and 30 percent of hot-rolled bars in 1981), minimills are now extending the line to include virtually every kind of steel product: pipe and tube, plate, tinplate, sheet and strip. As before, the minimills will make their market penetration at the expense of imports and of the integrated producers.

Steel made by the electric-furnace method accounted for 28 percent of U.S. steel production in 1980; I envision that share as rising to 32 percent in 1985 and 36 percent in 1990. Scrap for electric-furnace operations is likely to be available in more than adequate amounts at prices ranging from $118 per gross ton in 1985 to $126 in 1990. These average prices will not be exceeded because of the competitive restraints imposed by the availability of directly reduced iron as an alternative charge for an electric furnace. In this process iron ore is reduced to the solid-metallic state by heating it without melting it. The result is a highly reduced iron that can serve as the raw material for steel-production furnaces.

Minimills are expected to continue growing, although because of increased competition from a restructured Big Steel and from other modernized miniplants, it is doubtful they will match their rate of growth over the past decade. The minimill capacity of more than 14 million metric tons in 1983 will increase steadily through 1990. I expect that minimills may account for from 20 to 24 percent of the U.S. market, that is, they may have a total production of some 22 million metric tons in 1985 and 26.5 million in 1990. It also seems likely that many minimills will broaden their range of products and the quality of the steels they make.

Several technological advances can be expected, chiefly in minimills. In the melt shops new techniques will bring tap-to-tap times for 60- and 80-ton heats down to less than an hour. Recent innovations already seen in some electric-furnace shops are rapidly being introduced at most minimill operations. One of these "secondary practices" is ladle refining. In this procedure scrap is rapidly melted in the electric furnace at the maximum input of power. Then, as quickly as possible, the liquid metal is poured into a ladle, where it is refined



PRODUCTION COSTS per metric ton for integrated steel mills and minimills in 1981 are compared for the production of wire rods. Under each heading such as labor and iron ore the black bar represents the costs for an integrated mill and the colored bar represents the costs for a typical minimill. The minimill makes no outlays for iron or coke. Costs such as depreciation, interest and taxes are not shown.

The procedure allows the electric furnace to be reserved for what it does best: melting at high power.

Foamy-slag practice is another new application, although it was developed in a miniplant electric-furnace shop in Mexico some 25 years ago. Coal or coke is added to the furnace at the start of meltdown; the resulting reaction causes the formation of a layer (from one foot to four feet thick) of bubbling lightweight slag on top of the bath. A foaming slag envelops and shields the electrodes, facilitates heat transfer from the electrodes to the metal, reduces the tendency for hot spots to form in the furnace and minimizes damage to the refractory material.

One of the most effective developments of the past decade has been the use of water cooled panels in the wall and roof construction of the electric furnace. This step can eliminate as much as 75 percent of conventional wall and roof refractories, resulting in impressive lowering of production costs.

These and other novel techniques are aimed at increasing productivity, lowering production costs and improving the quality of the product. Many of them are now employed in recently built minimills. I expect these new techniques to be standard practice at most minimills within the next three to five years.

Equally important technical improvements can be foreseen in continuous casting. Interest is being shown in horizontal continuous casters, which would reduce the hazard of spills when large ladles full of molten steel are moved by an overhead crane 40 feet or more above the floor level. It would also eliminate the need for the expensive high structures that house vertical continuous-casting machines. Nevertheless, I doubt that horizontal casters will be ready to challenge vertical ones for many years.

In the rolling mill the speed of many existing mills can be increased by more than 50 percent with simple modifications. More significant, some minimills will be able to make thin slabs, from 25 to 40 millimeters thick and from 600 to 1,000 millimeters wide, by vertical continuous casting in the next two to five years and to roll such slabs directly (that is, to pass them directly to the finishing stands of a rolling mill) by 1990.

At least two large U.S. minimills already do direct rolling regularly. As two billet strands (sometimes just a single strand) emerge from the continuous caster they are simultaneously transferred directly to the rolling mill and rolled in it without the usual reheating. (The temperature over the cross section of a billet is made uniform by moving the billet through induction heaters between two of the initial mill stands.) In 1985 this practice is likely to be followed at half a dozen or more minimills.

Late in the 1990's one should see the industry's major technical achievement of the decade: the direct casting of strip steel from three to five millimeters thick, which constitutes the raw material for the many factories that turn steel into a great variety of finished products. One may also see at some U.S. minimills in the 1990's the introduction of plasma torches and plasma melting furnaces. A plasma is an ionized gas consisting of approximately equal numbers of positive ions and electrons. It is formed by passing a compressed gaseous fuel through an electric arc between two water-cooled electrodes. The fuel breaks down and ionizes with the generation of large amounts of heat. Plasma techniques are being worked on in several countries, including the U.S. Plasma torches for auxiliary heating are now in service in Sweden and Japan. In East Germany two plasma furnaces have been producing high-quality alloy steels competitively for the past three years.

Ladle refining, continuous-continuous casting, direct rolling of billets and direct casting and rolling of thin slabs and strip set the stage for continuous steelmaking of a full line of steel items in uninterrupted production operations where raw materials enter at one end and finished steel products emerge at the other. In the minimill linkages between the electric furnace and the continuous caster and between the casting unit and the rolling mill have already been demonstrated. I expect to see continuous steelmaking in one or more U.S. minimills before the end of the century.

Finally, although I expect the minimills' share of U.S. steel production to rise from 20 percent in 1985 to 24 percent in 1990 and then to continue upward, I do not expect the minimill sector to replace the integrated steel plants. It is likely that steel production by minimills will reach a peak between 32 and 40 percent, probably near 34 percent, sometime before 1995. The reason for such a limit is that steel products, including the steel scrap that sustains minimill production in the first instance, come from iron ore. Without the integrated-steel-plant sector, whose blast furnaces start the chain from ore to steel to steel products to scrap, the operation of minimills would be forced to halt in less than 10 years.

THE AUTHORS

JACK ROBERT MILLER ("Steel Minimills") is a consulting engineer and economist who has been in the iron and steel industry for more than 40 years. He holds degrees in electrical engineering from the Cooper Union Institute of Engineering and in economics from New York University. In addition to working for several major steel companies in the U.S. he has served as a staff member of the United Nations Centre for Industrial Development, the World Bank, the Inter-American Development Bank and the Battelle Institute. He writes: "After 40 years as a consultant I have worked on nearly 50 overseas projects and at least as many in the U.S. In 1976 I had to retire for medical reasons. After six years of unwilling retirement I went back to work. In 1983 I reestablished my consulting office in St. Petersburg, Fla., but with a difference: we are a group of retirees who do not want to be retired. We have been around the steel industry too long and know too much about its problems and their solutions to leave it so soon."

ENRICO BONATTI and KATHLEEN CRANE ("Oceanic Fracture Zones") are members of the staff of the Lamont-Doherty Geological Observatory of Columbia University who are collaborating on the work described in their article. Bonatti, a native of Italy who is a senior research scientist at the observatory, writes: "I obtained degrees in geological science at the University of Pisa and the Scuola Normale Superiore in Pisa. In 1960 I came to the U.S. on a Fulbright fellowship. I spent one year at Yale University and four years at the Scripps Institution of Oceanography. I was professor of marine geology at the University of Miami for several years before moving to Lamont in 1976." Crane holds a B.A. from Oregon State University and a Ph.D. from the Scripps Institution of Oceanography. She writes: "During my 10 years in oceanography and 25 expeditions at sea I became interested in the vertical dynamics of ocean crust. I joined forces with Enrico Bonatti in the Red Sea, where a newly forming midocean ridge is ramming into the Egyptian coast, thereby pushing up the island of Zabargad. The island is part of an uplifted paleoshear zone disguised as a lovely subtropical desert island: the nirvana of all oceanographers who have spent too much time at sea."

ALICE DAUTRY-VARSAT and HARVEY F. LODISH ("How Receptors Bring Proteins and Particles into Cells") are molecular biologists who worked together on the subject of their article when both of them were at the Massachusetts Institute of Technology. Born in France, Dautry-Varsat received her master's degree in solid-state physics at the University of Paris. After getting it she decided to pursue molecular biology and came to the U.S., where she obtained a second master's degree in molecular biology at the State University of New York at Stony Brook. She returned to France to earn her doctorate at the Pasteur Institute in Paris. Thereafter she worked at the Medical Research Council Laboratory of Molecular Biology in England and at M.I.T. before joining the staff of the Pasteur Institute. Lodish is professor of biology at M.I.T. He was graduated from Kenyon College and went on to get his Ph.D. from Rockefeller University. He joined the faculty of M.I.T. in 1968. This year he will move his laboratory to the Whitehead Institute for Biomedical Research on the M.I.T. campus.

JOHN E. HOPCROFT ("Turing Machines") is professor of computer science at Cornell University. He has three degrees in electrical engineering: a B.S. from Seattle University (1961) and an M.S. (1962) and Ph.D. (1964) from Stanford University. After getting his doctorate he was on the faculty of Princeton University for three years before going to Cornell, where he has remained except for a year spent as visiting associate professor at Stanford.

JANICE MOORE ("Parasites That Change the Behavior of Their Host") is on the faculty of Colorado State University. She writes: "As an undergraduate at Rice University I took a parasitology course for reasons I have forgotten and finished it with a permanent sense of wonder at such diversity and adaptation. I completed a master's degree in insect behavior at the University of Texas at Austin and set out to study parasites. The field of parasite ecology was viewed then as an interdisciplinary one, and I was urged to choose a more mainstream project. Instead I switched schools twice and worked at several editorial and technical jobs. I then met some members of the biology faculty of the University of New Mexico, and with their encouragement I entered a kid-in-a-candy-shop world where I have remained."

ALAN H. GUTH and PAUL J. STEINHARDT ("The Inflationary Universe") are physicists who share an interest in the early history of the universe. Guth went to the Massachusetts Institute of Technology as an undergraduate and a graduate student; his Ph.D. in physics was awarded by M.I.T. in 1972. He writes: "I held postdoctoral positions at Princeton University, Columbia University, Cornell University and the Stanford Linear Accelerator Center (SLAC). During most of that time I worked on rather abstract mathematical problems in elementary-particle theory and knew no more about developments in cosmology than the average layman does. While I was at Cornell, however, Henry Tye, a fellow postdoctoral worker, persuaded me (with great difficulty) to join him in studying the production of magnetic monopoles in the early universe, and that was how my career changed direction. I continued the work in the following academic year at SLAC. Shortly thereafter I returned to M.I.T. as associate professor of physics, the job I now hold." Steinhardt was graduated from the California Institute of Technology with a B.S. in 1974. His M.A. (1975) and Ph.D. (1978) in physics are from Harvard University. From 1979 to 1981 he was a junior fellow in the Society of Fellows at Harvard. In 1981 he moved to the University of Pennsylvania, where he is associate professor of physics.

J. M. ADOVASIO and R. C. CARLISLE ("An Indian Hunters' Camp for 20,000 Years") are members of the department of anthropology at the University of Pittsburgh. Adovasio is professor of anthropology and chairman of the department. He was graduated from the University of Arizona with a B.A. and went on to earn his Ph.D. from the University of Utah in 1970. His scientific interests include the excavation of closed archaeological sites such as caves and rock shelters and the techniques by which baskets were made in ancient times. Outside the laboratory Adovasio is a rider of high-performance motorcycles and a competitive weight lifter. Carlisle is assistant to Adovasio, research assistant instructor of anthropology and editor in the university's Cultural Resource Management Program. He is currently working on his doctorate at Pittsburgh.

ANDREW CLIFF and PETER HAGGETT ("Island Epidemics") are geographers who have worked together since 1968 on the quantitative aspects of geography, in particular the problem of how cultural innovations, economic forms and diseases are transmitted spatially in human populations. Cliff was educated at King's College of the University of London, Northwestern University and the University of Bristol. His Ph.D. in geography was awarded by Bristol in 1969. In 1972 he joined the faculty of the University of Cambridge. Haggett is professor of urban and regional geography at Bristol. He was educated at Cambridge and taught there and at University College London before joining the Bristol faculty in 1966.

Tubular Corp. of America, Inc.,
Houston, TX, August 17, 1984.

Re Letter of Lone Star Steel Co. in response to testimony of Robert Alpert of Tubular Corp. of America, Inc.

Hon. Sam Gibbons,
Chairman, Subcommittee on Trade,
Committee on Ways and Means, Washington, DC.

Dear Mr. Chairman: Tubular Corporation of America ("TCA") hereby responds to the letter submitted by Lone Star Steel Company on August 10, 1984 for the record of the hearing on problems of the U.S. Steel industry.

At the outset, it must be noted that the Lone Star letter merely represents another attempt to obfuscate the green tube issue under consideration by the Subcommittee on Trade, as well as by several administrative agencies. Lone Star's persistent efforts in this regard are aimed at putting the efficient, high quality processor sector out of business by denying imported green tubes to such processors. Lone Star is particularly interested in blocking TCA access to green tubes to foil TCA's plan for backward integration. This plan, to be effected within the next three to four years, will render TCA a full-scale mini mill, utilizing state-of-the-art equipment to produce tubular products at the lowest cost.[1]

Lone Star evidently fears that the domestic integrated producers, whose seamless facilities are, on the average, over 40 years old, cannot favorably compete with the products now shipped by TCA and other processors. For this reason, Lone Star has improperly sought protection on green tubes to bar processor access to this product.

I. THE TERM GREEN TUBE HAS GAINED INDUSTRY ACCEPTANCE

Lone Star asserts that use of the term green tube is "misleading," suggesting that TCA is the only company that "uses the term as part of its efforts to have green tubes subject to treatment different from other types of OCTG." [2] This contention could not be farther from the mark.

The term green tube is used to describe a semi-finished tubular shell for processing into OCTG, such as casing, tubing, or drill pipe. In its raw state, green tube lacks the physical characteristics of OCTG that are imparted through additional processing. Other names have also been used to describe green tubes for processing, i.e. mother tubes, green tube hollows, and unprocessed tubular blanks (the American Petroleum Institute ("API") uses this term). However, the term green tube is generally accepted, as exhibited by its use in the authoritative Preston Pipe Report (See, issues of July 15, 1983 and July 15, 1984) and by U.S. Steel Corporation in connection with its green tube supply arrangement with Dalmine (See, Affidavit of Ronald Higgins, submitted to the International Trade Commission on July 18, 1984.) Without question the term green tube was recognized and used by the U.S. industry well before TCA even existed.

Prior to the advent of an API licensed processor category, green tubes were generally not an item of trade, since integrated producers make their own green tubes which were then processed in their own facilities into OCTG or other pipe products such as mechanical and structural pipe. At that time, only those producers holding an API type manufacturer license, such as Lone Star and other large integrated mills, were authorized by API to change the physical properties of a green tube and to certify that the physical properties of products made from the green tube complied with API specifications. In licensing processors, API recognized that the production of semi-finished tubular shells or green tubes and the processing of such green tubes into OCTG are separable operations. The API license permits a processor to produce OCTG from green tubes and to certify that the end product meets API specifications for oil country tubular goods. Under API requirements, such processing must at a minimum include heat treating, non-destructive testing and straightening.

II. THE GREEN TUBES PURCHASED BY TCA ARE NOT NON-API OCTG

Lone Star submits that the name green tube has been used to describe "various types of OCTG, most commonly plain-end non-API OCTG." According to Lone Star, "non-API" indicates that the tubes have not been subjected to "the inexpensive testing procedure required to render the tubes eligible for the American Petroleum Institute stencil." Such statements are patently incorrect. First, mere testing of green tubes is not sufficient to permit a processor to apply an API monogram. The API requires that in addition to finishing, the product must be further processed, including heat treating, to employ the API monogram. The green tubes purchased by TCA are not plain-end, non-API OCTG. To the contrary, they are semi-finished material produced and intended only for further processisng into OCTG meeting API specification or into mechanical and structural pipe, among other products.

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[1] TCA has already made a $50 million investment in its processing facilities; backward integration will require an additional $300 million in capital expenditures.

[2] The abbreviation used for oil country tubular goods throughout this letter is "OCTG."

Moreover, Lone Star has lumped together under the rubric of non-API OCTG very different products, none of which constitute green tubes. Lone Star has cleverly withheld a single example of a non-API product because in doing so it would reveal the lack of foundation for its claim. For example, non-API OCTG can refer to OCTG meeting specific proprietary specifications which exceed API requirements. Much additional processing, including heat treatment, must be accomplished to change the physical properties of green tubes to the exacting tolerances required for this superior performance product. Clearly, such products exceeding API standards cannot possibly be deemed green tubes. Unlike green tubes, the physical properties of these ultra-API OCTG must be certified prior to their end-use.[3]

Limited service material, which is also referred to as non-API OCTG, is scrap or surplus pipe that does not meet API criteria in the production process and is sold in an "as is" condition without certification of its physical properties. Limited service pipe, comprising a small portion of the non-API market, is confined to use in limited circumstances, such as very shallow oil or water wells, surface transportation of liquids and mechanical pipe.[4]

The only other non-API OCTG product category is that of API equivalent. The seamless green tubes purchased by TCA for further processing are not suitable for use as non-API equivalent product. These green tubes do not possess the requisite physical properties to meet API equivalent specifications. Conversely, API equivalent grade seamless products offered by the domestic mills for sale are not suitable for use as green tubes by TCA on the basis of chemistry or physical characteristics.

Accordingly, just as the non-API OCTG cited by Lone Star cannot be used by TCA as green tubes, these green tubes are not suitable for OCTG applications. The green tubes purchased by TCA are to particular specifications, as they are intended only for further processing and finishing, including heat treating, in order to satisfy API requirements for high-strength OCTG.

III. SEAMLESS GREEN TUBES HAVE NOT BEEN AVAILABLE FROM DOMESTIC SOURCES

Lone Star discounts TCA's inability to obtain green tubes from domestic sources. Lone Star also contends that TCA "has not yet made public the sources, specifications and prices of its foreign supply," leading to the belief "that domestic producers have produced and sold the same type of OCTG which TCA purchases abroad."

As a threshold observation, the source and price of TCA green tubes constitute business confidential information. Nonetheless, this information is irrelevant as to whether domestic producers make this product. The TCA specifications for seamless green tubes are no secret: this information has been available to Lone Star and other domestic integrated producers for quite some time.

While domestic integrated producers of seamless OCTG make green tubes as an intermediate step in the OCTG production process, there is no evidence to indicate that seamless green tubes are sold by major US producers—to the contrary, they are capitively consumed. TCA is aware of only two limited instances in which green tubes were sold, with title passing to the buyer.[5] The first occurred in 1981, in the peak OCTG market, when US Steel, possessing more rolling than finishing capability, reached full utilization of its finishing facilities. Under these circumstances, US Steel shipped seamless green tubes to an authorized distributor of US Steel products for processing and finishing by a subsidiary of the distributor.[6] The only other known instance in which seamless green tubes were sold, was TCA's receipt of a 500 ton trial lot from Republic Steel Corporation.

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[3] An example of proprietary non-API OCTG, exceeding API specifications is LSS–125, sold by Lone Star.

[4] It would be economically infeasible for TCA as a processor to purchase green tubes for use as limited service material, as the market price for limited service products in substantially less than the price that TCA must pay to obtain semi-finished seamless green tubes.

[5] During the tight supply situation in 1981, some domestic integrated producers used independent processors to process under contract. Title to the green tubes was retained by the producer and the resulting OCTG product shipped under the producer's name.

[6] Because US Steel and other domestic producers were already shipping OCTG at their maximum capability, US Steel could ship green tubes secure in the knowledge that it would not face competition in the market from the OCTG ultimately processed from the green tubes.

Lone Star does not manufacture seamless green tubes for sale; it is largely a welded pipe producer, having shut-down its high-cost extrusion mill.[7]

Other domestic OCTG producers have quoted TCA on green tubes. While CF&I had discussions with TCA, there was an unresolved question as to CF&I's ability to meet TCA's specifications on green tubes (not plain-end non-API OCTG, as Lone Star suggests) CF&I could produce. TCA's technicians have serious doubt as to whether CF&I's antiquated mill facilities can make a green tube which will meet TCA's specifications. Moreover, CF&I offered green tubes for sale at prices which exceeded the market price for the OCTG products manufactured from green tubes.[8]

There were many contacts with other integrated seamless mills made by TCA in its attempt to secure a domestic source of green tubes.[9] The absence of viable comercial offers by domestic integrated producers can be viewed as the result of: (1) a basic unwillingness on the part of a domestic competitor to provide an input product which, when processed, will be a superior quality OCTG product competing directly with his OCTG product in the market [10] or (2) inability to meet the specific TCA quality requirements for seamless green tubes. It is complete supposition on the part of Lone Star that domestic producers could not meet or even approach the prices charged for imported green tubes.

Moreover, there is no foundation for Lone Star's claim that such domestic producers compete with "foreign producers of green tubes." Not only have domestic producers capable of meeting TCA requirements refused to sell green tubes, but there is no competition between imports of green tubes and domestic OCTG—they are simply not the same product.[11]

IV. PAST RESTRICTIONS ON PIPE AND TUBE IMPORTS HAVE SHARPLY DIMINISHED GREEN TUBE AVAILABILITY

In TCA's experience, past administrative restrictions on pipe and tube from the EC and Japan have caused these sources of green tubes to virtually dry up. Trade legislation now pending in both the House and the Senate, as well as antidumping and countervailing duty actions filed by Lone Star, threaten to further reduce imports of green tubes.[12] As TCA is totally dependent on imported green tubes, this is a dismal prospect for TCA's immediate future and for its investment plans.

If past behavior portends the future effects of any additional trade restrictions on pipe and tube, imported green tubes will not be available within the framework of the "relief" sought by Lone Star and other major integrated producers. Because green tubes have been lumped with OCTG and other pipe products in the Tariff Schedules, in a "basket" pipe and tube category, there are no separate trade statistics on green tubes. Accordingly, for administrative convenience, trade arrangements on pipe and tube consummated by the Executive Branch have included tubes simply because this product could not be disaggregated.[13]

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[7] Lone Star has attempted to sell welded green tubes to TCA. TCA cannot use welded green tubes in its processing facility without substantial investment in additional equipment. In view of TCA customer preference for high-strength product, which under API requirements must be seamless, it would be impracticable to make this additional investment.

[8] This quote was on a relatively small order. Yet, later CF&I refused to quote on a larger order, stating "for such small amounts of each size . . . no unsubsidized mills could possibly afford to make them."

[9] Note that US Steel entered into a contract to purchase imported green tubes over a five year period when it desired an interim supply of green tubes during the construction and start-up of its Fairfield, Alabama seamless mill. TCA desires the same opportunity afforded to a larger competitor.

[10] This attitude was reflected in a memorandum circulated by Lone Star in connection with hearings before this Subcommittee on the Fair Trade in Steel and Tube Act in 1983, which was quoted extensively at page 10 of Mr. Alpert's testimony.

[11] TCA is concerned by the obvious anticompetitive actions of the individual domestic producers in refusing to sell TCA green tubes. It is also troublesome that Lone Star represents itself as sufficiently acquainted with the details of each of TCA's contacts with the other domestic integrated mills, including the prices at which each mill was allegedly willing to sell green tubes.

[12] The mere filing of an antidumping or countervailing duty case can exert a chilling effect on the free flow of imports, even where no subsidy or dumping margins ultimately are found.

[13] The dumping and countervailing duty petitions filed by Lone Star also improperly purport to encompass green tubes. While the petition is addressed only to OCTG, the TSUS items cited therein are not restricted to OCTG, but include other products such as green tubes, line and mechanical pipe.

V. TCA HAS HAD NO CHOICE BUT TO PURCHASE IMPORTED GREEN TUBES

In seeking continued access to imported green tubes, TCA has no financial stake at risk other than its need for a steady supply of green tubes to remain in the processing business. Without a domestic source of this essential raw material, TCA has had to rely on imported green tubes. Indeed, Lone Star's contention that TCA has been the "direct recipient of the benefit of dumped and subsidized OCTG" is misplaced. There has never been an adjudication of dumping or subsidization by the Commerce Department on green tubes or on any OCTG product produced from a green tube, from any country. The Commerce Department included OCTG (and consequently green tubes by virtue of their "basket" tariff classification) in the informal EC pipe and tube arrangement consummated to settle subsidy cases against EC producers of large diameter welded line pipe. The settlement was not based on findings of subsidization or dumping against OCTG or against green tubes. These products were never even at issue in the underlying cases. Similarly, there has never been an unfair trade practice case against OCTG (or against green tubes) from Japan. Even the allegations of dumping and subsidization in the recent Long Star cases are purely speculative until such time as petitioners' charges may be upheld by the Commerce Department.

Furthermore, there is little danger of "diversion" as suggested by Lone Star if "green tubes [are] not subjected to import protection." An exemption for seamless green tubes from any legislative or administrative action would have virtually no impact on the domestic producers of OCTG. First, there is only a limited market for seamless green tubes in this country. Second, as a semi-finished product, green tubes are of relatively low value. As such, foreign producers will continue to maximize export sales of higher value added OCTG products. Finally and most importantly, TCA hs never advocated a complete exemption for seamless green tubes. TCA favors a tailored exemption that will best serve the needs of the processor sector by providing API-licensed processors with access to a limited amount of seamless green tube tonnage on a interim supply basis.

V. CONCLUSION: TCA AND OTHER PROCESSORS MUST BE PERMITTED ACCESS TO GREEN TUBES TO PROMOTE HEALTHY MARKETPLACE COMPETITION

In short, it is not "unfair" to permit TCA and other processors to obtain the raw materials needed to run their facilities. There have been no findings that green tubes are either dumped or subsidized.[14] Moreover, the domestic industry lacks standing to complain of injury by reason of green tubes. Green tubes are not OCTG and as such do not compete in the marketplace with OCTG products.

Lacking a basis for such restriction, it is evident that Lone Star seeks to restrict imports of green tube not for bona fide relief from injurious imports, but to derail TCA as a strong competitive force in the market place. Thus, any blanket restrictions on green tubes will only serve to perpetuate the traditional market dominance of inefficient domestic integrated producers at the expense of state-of-the-art processors such as TCA, who have exhibited a commitment to advance the national interest in revitalizing basic steel into a self-sufficient, modern industry. This in turn would impede our nation's efforts to achieve energy independence by denying domestic OCTG purchasers the opportunity to obtain the highest quality OCTG products from a domestic source.

Respectfully submitted,

LESLIE RANNEY,
General Counsel.

STATEMENT OF DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest".)

Once again, sectors of the United States Government are examining the problems of the U.S. steel industry, once again solely in response to requests for government assistance to this important, ailing sector of our economy, and once again solely in response to requests for one remedy: extraordinary restriction of steel imports. An import-relief proceeding has been instituted at the International Trade Commission, and now come these hearings of your Subcommittee including consideration of a bill (H.R. 5081) to impose highly restrictive quotas on steel imports.

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[14] Long Star states that "if current trade laws were truly effective TCA . . . would have been denied unrestricted access long ago to dumped and subsidized imports." This statement overlooks the fact that until June, 1984, no member of the domestic industry had ever filed a dumping or contervailing duty case on OCTG or green tubes.

To control or not to control imports is not the sum and substance of the question that needs incisive attention. The real issue is (a) whether the steel industry needs and deserves government help of any kind, (b) what forms of government assistance should be provided across the board of applicable public policy, with import control only one of the possible components and even then a measure of last resort, and (c) what kind of steel redevelopment strategy should be adopted (assuming extraordinary measures are necessary), involving commitments by management and labor as well as government. Government measures meriting attention include reassessment of all statutes and regulations that materially affect the industry's ability to adjust to new international economic realities.

Careful review of the record of public statements about the steel industry during the past 20 years may well show that, first as a senior staff person with the Committee for a National Trade Policy and later as chief executive officer of the U.S. Council for an Open World Economy, I have been the sole advocate (at least one of the very few) of a comprehensive approach to the real problems and needs of the steel industry. Like most other advocates of freer world trade, I have opposed legislated and other politically pressured controls of steel imports (I oppose the steel import-quota bill now before Congress). But, unlike virtually all other opponents of "protectionism", I have deeply concerned myself with the grievous problems of this industry, its workers and the communities that depend on steel production, and with the need for the right kind of government attention to these issues. Opposition to import controls as injurious to the national interest is not enough; the liberal-trade policy which the so-called "free traders" say is vital to the national interest must be made good for every state in the Union—and this requires, among other things, coherent, constructive attention to ensuring that industries that can attain viability in today's rapidly changing world economy are reorganized and reinvigorated through adjustment and redevelopment strategies that meet the highest standards of good sense, good judgment and good policy. In the case of the steel industry, viability must be ensured for national-security as well as other worthy purposes.

What the government needs to do for the steel industry (to the extent that this industry needs and deserves government help) can better be formulated through incisive investigation of all pertinent factors by the International Trade Commission, leading to formation of a coherent adjustment strategy by the Executive Branch (coordinating with industry and labor), than through Congressional hearings such as those now under way by your Subcommittee. Congressional committees can play an important role in these matters through review of the progress of the adjustment strategy that is needed. Unfortunately, the import-relief provisions of the trade legislation are inadequately structured for the kind of ITC investigation I have advocated (a point I have argued in previous presentations to your Subcommittee and in other Congressional hearings), and the Executive Branch itself does not adequately address the problems and needs of the steel industry, steel workers and steel communities. It is regrettable that the appropriate committees of Congress have not concerned themselves with these legislative and administrative inadequacies.

STATEMENT OF HON. LYLE WILLIAMS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. Chairman, thank you for giving me the opportunity to submit this statement for your hearing on problems of the U.S. steel industry.

The most severe problem confronting that industry is imports. The statistics speak for themselves. For the first three months of this year, imports totaled six-and-a-half million tons—a level without precedent. That tonnage figure is over 25 percent of the American market, the greatest level ever for one quarter. And, that tonnage is an over 85 percent jump over the same period last year. During that year, 1983, imports of steel from Mexico increased 477 percent, from Brazil 108 percent, from Argentina almost 69 percent, and from Korea approximately 62 percent. Leading the jump in American market penetration are developing countries. Steel imports from these nations, virtually all of which provide hefty subsidies or own their steelmaking facilities, have increased two-fold in tonnage in the past four years and have raised their market share almost 300 percent. In 1980, it was almost three-and-a-half percent. In January of this year, it had jumped to just over ten percent. These nations, who are looking to form an industrial economy, are looking for export revenues. They are compelled to earn foreign exchange to apply towards reducing (or at least slowing the increase of) their large debts.

One of the reasons this country is experiencing such a dramatic increase in steel imports is the over-production of steel worldwide. Foreign governments are under pressure to sustain high levels of high employment in their steel industries through maximum utilization. Subsidies for steel by foreign governments have brought about up to 200 million net tons of overcapacity in the Western world economy (exclusive of the United States). And often, those subsidies come from funds provided through international loans, made up substantially of U.S. dollars. Another reason this country faces an import problem, in addition to an increase in the foreign product, is an increase in the means of foreign producers to make that product. Time after time, the developed countries (largely in the European Community and Japan) advance credits to developing countries, credits that are governmentally subsidized, to enable those developing nations to purchase steel plants and equipment and continue to increase steel-producing capacity—despite the surplus of steel supply in the international market. And although it might seem advantageous for those developing countries to increase steel production and provide jobs for their citizens, the situation actually develops into a "Catch 22" affair. Purchase of steel plants and equipment increases foreign debt. More steel plants mean more production. More production worsens the oversupply situation. That raises the potential for losses, forces foreign governments to increase subsidies, depressing further the prices at which they can sell their steel, resulting in even greater losses and hence even higher foreign debt. A case in point is Brazil. In 1983, that country became the seventh largest exporter of steel in the world. And, last year, as I indicated earlier, Brazil increased its exports of steel to this country by over 100 percent, to roughly one-and-a-quarter milion tons. In spite of serious economic constraints inside Brazil involving an acute shrinkage of the steel market and the resulting persistent operating losses by steel concerns, and economic problems on the international scene—a foreign debt to almost 100 billion dollars—Brazil, within the last year, opened a new steel plant which will produce steel mostly for shipment to other countries and has plans, with financing from the World Bank, to expand two other government-owned mills. America is the single major industrial country in which capacity has not been overbuilt. And it is to America—the only free trade steel market in the world—where the large majority of that overproduction by foreign steel concerns is shipped. Out steel trade problems stem from America's position as the only open market of significance.

The effect of the scenario I've just described on the steel industry in the United States is promotion of the process of compelled liquidation. In the last ten years, more than 200 production facilities have been closed. Last year, 15 million tons of capacity were shutdown. That figure matches the total capacity of Canada or Great Britain. Liabilities in the steel industry now stand at over three-quarters of equity. The workforce in the industry has been diminished by over a quarter-of-a-million employees. Examination of one sector of the steel industry and the effect of imports on that sector is truly representative. In the 17th District of Ohio, which I represent, the Copperweld Corporation has a major facility. Copperweld manufactures cold-finished steel bars. Imports of cold-finished steel bars in 1982 and 1983 were higher than the average over the last ten years. Thus, penetration into the U.S. cold-finished steel bar market has been higher than ever before, nearly double that of historic levels. But during 1982-1983, domestic shipments were at levels unprecedented—on the down side—since the Great Depression. In 1982, production was well less than half of capacity. That figure increased to just over half of capacity in 1983. Eight plants were closed. The large majority of others—such as the Copperweld plant in Warren, Ohio—have not worked full shifts for some time. More than half of the sector's employees were on layoff. Persistent monetary losses in this country's steel industry result in expensive postponement and outright cancellation of reinvestment plans for existing plants—reinvestment and modernization that would have helped to avoid the massive, permanent shutdown of steel facilities in my district and throughout the country, because the plants have remained competitive with proper refitting.

The most dire effect of this unrelenting stream of imports is on people and their communities, and unemployment among steelworkers is unprecedented. Now, more than 150-thousand out-of-work steelworkers are on some type of relief. Another 100-thousand have used up that relief together. Since 1979, 40 percent of the workforce has been lost. It is a crisis of national proportion. Imports subsidized by foreign governments are exacting a huge toll in jobs and tax dollars, because plants nationwide, like those in Youngstown, Warren, Niles, Campbell and Struthers, Ohio—all in my district—are not producing steel. These communities and my district as a whole are severely depressed. Thousands of my constituents are forced simply to survive with government maintenance subsidies instead of steel company paychecks because of foreign subsidies on imported steel. And the crisis in steel is the basis for other crises in related businesses, such as support and supply companies for the steel firms, crises that put even more people out of work. The more people out of work, the more stress is placed on other people, working people, still paying taxes, because tax revenues are less and government subsidies to those out of work are greater. There has been a huge increase in social service costs in my district. Welfare departments in Mahoning and Trumbull Counties in Ohio are busting at the seams.

Both the steel companies and the unions have been doing their best to remain viable in the marketplace. Manufacturers and American labor have reacted to the problem by making operations more efficient, through modernization and reduction of costs. Outmoded facilities (a large number of which, unfortunately, were located in my district and, as I indicated earlier, might not have been closed had the competitive environment been more fair) were shutdown, and renegotiation of contracts allowed work rules to be altered. An advancement was made when a new agreement was reached between the seven biggest steel producers in this country and the United Steelworkers of America lowering employment costs for the contract period of March of last year through June of 1986. The efforts to streamline have been real. Unfortunately, the results—in terms of improving this country's steel product competitiveness—have not been what would have been hoped for, due mostly to heavy foreign government involvement in their steel industries, making moves by this country's industry towards competitiveness (moves which, in the free and fair marketplace, would have improved competitiveness) ineffective, because of the distortion of the marketplace caused by foreign subsidization and dumping.

While our steel industry and our people try to cope with the overwhelming pressure from this flood of steel imports, the government's response to steel thus far has been indicative of its position as the only industrial or developing nation that does not acknowledge as a basic element of its industrial fabric and necessary to the maintenance of the strength of that fabric its steel industry and the significance the strength of that industry has on any country's security, both economic and military security. Trade laws already in place are being put to the test—and are failing. We now have in place a variety of negotiations in progress, escape clause actions, and antidumping or countervailing duties. There is no way to tell with any certainty what policy will come out of all this. The plethora of procedures underway is indicative of the degree of dumping and entry into the U.S. market of foreign-subsidized steel, and the system just is not handling it. Hundreds of unfair trade complaints have been filed in the last several years. Despite that, imports of foreign-produced steel are up from over 16 percent of the market in 1980 to more than 25 percent thus far in 1984. Since 1980, more than 100 unfair trade practice complaints, quite time-consuming and costly to prepare, have been filed with the Department of Commerce. Yet since 1980, imports as a percent of apparent supply have averaged over 20 percent. That's three percent higher than the period 1976–1980 and seven percent higher than the four-year period prior to that. The problem here is that complaints of unfair trade cannot be prepared and resulting administrative procedures cannot be effected fast enough to remedy the situation. There are three cases in point. Earlier, I described the situation surrounding Brazilian steel. While unfair trade duties have been augmented by the application of additional duties, since 1980 subsidized and dumped Brazilian steel sold in this country has increased from about a half-a-million to one-and-a-half million tons, and the effects of additional duties now are just catching up. In March of last year the ITC decided in favor of the speciality steel industry's efforts for administrative relief through its Section 201 petition. The industry charged that higher levels of imports were "a substantial cause of serious injury." In July (four months later) the President determined that he would impose: 1) a four-year increased tariff schedule for strip and stainless sheet and 2) import quotas for stainless bar and rod and alloy tool steel. In spite of the higher tariffs, imports of these products increased dramatically from three countries: Japan, South Korea and Spain. Finally, just last month, on June 12th, the ITC ruled in favor of the Bethlehem Steel and the United Steelworkers Union Section 201 complaint. But the ITC has until July 24th—almost a month-and-a-half—to make a final recommendation, and then the President has until September 24th—two months later—to act on the Commission's recommendation. The time frame is indicative of the slowness with which the system responds. America's steel firms do not have the financial means to wait for the outcome of another administrative experiment, especially given the effect other administrative remedies have had in the past.

H.R. 5081, "The Fair Trade in Steel Act of 1984," provides legislative remedies for a situation in which administrative remedies have failed. The limitation of steel imports provided for in the legislation, which is the average level of steel imports present in the last decade, is at a greater level than now is permitted by any other developed industrial country in the world. That includes the European Community as one trading unit. The quota level in the bill, 15 percent, has not been set capriciously, but rather, is the product of the evaluation of the trends of imports and the effect those imports have on the marketplace—imports of different steel products which occupy different shares of their individual markets. There are critics who say that the legislation would put modernization on the back burner. Well, it provides for precisely the opposite. The legislation mandates that quotas will be inactivated if it is ascertained that steel producers have not maintained sufficient funding for modernizing facilities. Quotas would not be counterproductive to investment. As it now stands, steel is rated dead last for return on investment. As to critics who say that the import limitations provided for in the legislation would cause an increase in the price of steel, it is important to point out that during the last decade, the period during which imports averaged 15 percent of apparent domestic supply and the figure called for in H.R. 5081, there was keen price competition. Some say the import limitations are not a proper adjustment to the reality of the marketplace. Well the reality is this: one of our so-called trading partners, Japan, has erected trade barriers—to autos, satellites, computer software, and telecommunications equipment just to name a few. Further, Japan has and continues to target U.S. markets, the most recent of which has been the machine tool industry. Other countries subsidize their steel industries and dump steel in this country below cost. Opponents of the legislation also say the situation is on the road to remedy. Is this an improvement?: In January of this year, according to the American Iron and Steel Institute, imports as a percent of apparent supply were at 26.1 percent—up from 19.7 percent in January of the year before. And to those who say that import limitations would destroy competitiveness, is dumping steel below cost competitive? Still others maintain that we have an obligation to foreign governments not to put in place limits on imports absent determinations of "serious injury." The evidence that there has been "serious injury" beyond the "201" cases in which an administrative determination has been made is clear. The contention that measures already in place concerning trade have shown themselves to be capable of dealing with unfair trade and that execution of relief is immediate is just not borne out by the facts.

Mr. Chairman, as of June 27th, the "Fair Trade in Steel Act" has 203 co-sponsors, reflecting broad bipartisan support and the seriousness with which I and a large number of our colleagues view the situation. There is no more sorry testament to the plight of our nation's steel industry than the vacant mills and the out-of-work steelworkers in my district—now with no prospect of a return to a livelihood in which they can take pride—unless we take the intiative, report this bill out of Committee, and pass this legislation on the floor of the House of Representatives, to allow America's steel industry and hence thousands of my constituents to get back on their feet. Thank you.

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